

A FIRST APPROACH TO ECONOMICS

for
INDIAN READERS

By

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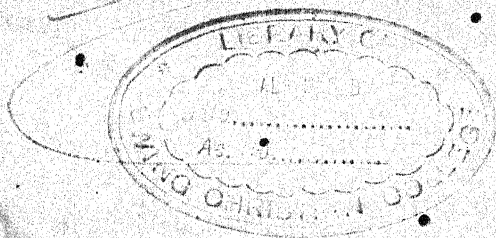
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Very good book



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revenue, 2. Excise, 3. Stamp, 4. Forests, 5. Registration, 6. Irrigation, 7. Scheduled taxes; Chief heads of expenditure of the Provincial Government—1. Direct demands on revenue, 2. General administration; 3. Police, 4. Education, 5. Medical relief and public health; 6. Industries, 7. Agriculture. C. Local finance; The functions of Municipal Boards—*i.* Public safety, *ii.* Health, *iii.* Convenience, and *iv.* Instruction; Sources of revenue of Municipal Boards—1. Taxes and rates; 2. Realisation under special acts; 3. Revenues from Municipal property and power; 4. Grants and contributions; 5. Miscellaneous. Statement of income and expenditure of a Municipality for 1936-37. District Boards and their functions; Sources of revenue of District Boards; Statement of income and expenditure of a District Board for 1935-36. Progress of Local Boards.

LIST OF ILLUSTRATIONS

	PAGE
The Law of Diminishing Utility	56
Diagram Illustrating Diminishing Utility, Marginal Utility and Total Utility	62
Consumer's Surplus	65
The Law of Demand	72
The Demand Curve	75
Diagram Showing Increase in Demand	77
The Elastic Demand Curve	79
The Inelastic Demand Curve	79
Supply Curve	84
Graph Showing the Budget of Consumption	102
Graph Showing the Budget of Consumption	114
India (Rainfall)	141
Area under Food and Non-Food Crops	151
Shares of Provinces in total area (in acres) under principal crops in 1934-35	152
India Showing Product	154
Sketch-Map Showing Location of Principal Mines and Oil-Field in British India	165
United Provinces Canals and Ganges Canal Hydro-Electric Grid	176
Map of India, Showing the Density of Population by Natural Divisions of Provinces and States	192
Distribution of Population by Occupations	201
Comparative Distribution of Occupations in the larger Provinces	202
Steam Tractor and Modern Plough at work	228
Sketch-Map Showing Distribution of Chief (Factory Industries in British India	236
Diminishing Return or Increasing Cost	301
Increasing Return or Diminishing Costs	301
Constant Returns	301
Maunds of Wheat Supplied or Demanded	328
Normal Price under Increasing Costs	333
Normal Price under Constant Costs	333
Normal Price under Decreasing Costs	334
Cost of Production	426

CONTENTS

CHAPTER I

PAGES

THE SUBJECT-MATTER OF ECONOMICS	1—21
---	------

Definition of Economics; Scope of Economics; Divisions of Economics; Relation of Introduction to other departments; Relation of Consumption and Production; Relation of Consumption and Exchange; Relation of Consumption and Distribution; Relation of Consumption and Public Finance; Relation of Production and Exchange; Relation of Production and Distribution; Relation of Production and Public Finance; Relation of Distribution and Public Finance; Relation of Economics to other Sciences; Economics and Sociology; Economics and Ethics; Economics and Psychology; Economics and Politics; Economics and Statistics; The Nature of Economic Laws; Methods of Economics; Usefulness of the study of Economics.

CHAPTER II

GOODS AND WEALTH	22—26
----------------------------	-------

Goods; Wealth; Individual's Wealth; National Wealth; Cosmopolitan or International Wealth.

CHAPTER III

THE DEVELOPMENT OF ECONOMIC LIFE	27—33
--	-------

The Hunting and the Fishing Stage; The Pastoral or the Nomadic Stage; The Agricultural Stage; The Handicraft Stage; The Industrial Stage.

CHAPTER IV

CONSUMPTION

MAN'S WANTS AND THEIR SATISFACTION	34—52
--	-------

What is consumption; Importance of consumption; Characteristics of Human wants—Human wants are unlimited in number; Wants are limited in capacity; Wants are competitive; Wants are complementary, etc; Some apparent exceptions; Different kinds of wants—Urgency,

attractiveness and durability; Classification of wants (i) Necessaries, (ii) Comfort, (iii) Luxuries; The standard of Living; The standard of living in India.

CHAPTER V

UTILITY	53—70
-----------------	-------

The definition of utility; The Law of Diminishing Utility; Meaning of 'other things being equal'; Exceptions to the Law of Diminishing Utility; Marginal utility; Total utility; Consumer's surplus; The Law of Equi-Marginal utility or the Law of Substitution or distributing the income.

CHAPTER VI

DEMAND	71—85
----------------	-------

The meaning of demand; The Law of Demand; The demand schedule; Systems of demand—joint demand and composite demand; Increase in demand; Elasticity of demand; Variations in the elasticity of demand—1. The demands for necessities is usually inelastic while for comforts and luxuries it is elastic, 2. influence of variety of uses, 3. influence of substitutes, 4. influence of habit, 5. influence of prices, and 6. influence of distribution of wealth; Meaning of Supply; The Law of Supply; The Supply Schedule; Uses of demand and supply schedules.

CHAPTER VII

ECONOMICS OF SPENDING AND SAVING	86—103
--	--------

What spending denotes? An historical survey of spending—the hawking system, weekly or bi-weekly markets, fairs and exhibitions, and the modern organised markets; General principles of spending—the method of spending and the prices of goods and services that we purchase for consumption; Relation of saving to spending—merits and demerits of saving and spending; The social side of spending; Spending and the producers; Spending and Idlers; The problem of luxuries—(i) Good points about luxuries, (ii) Luxuries which are socially condemnable and unjustifiable, (iii) Are works of arts luxuries; What is waste.

FAMILY BUDGETS, NATURE OF CONSUMPTION AND INCOME IN INDIA	103—120
---	---------

CHAPTER VIII

PRODUCTION	121—128
--------------------	---------

What is Production—form utility, time utility, place utility, service utility; Factors of production,—land, labour, capital, organisation and enterprise; Essential factors of production; Efficiency of the factors of production.

CHAPTER IX

LAND 129—137

Definition of the term; What land does for production; Extensive and intensive cultivation; Transportation and agriculture; Effect of nature on production,—relief, climate, rainfall, soil, coast-line, and situation.

CHAPTER X

NATURAL ENVIRONMENT AND RESOURCES OF INDIA . . 138—181

Geographical location; Climate and rainfall; Geographical divisions of India,—the Himalaya Mountain region; The Indo-Gangetic Plain; the Deccan Plateau and the coastal strips; Variety of soils in India,—alluvial, the Deccan trap and the crystalline; Soil erosion—its prevention; Products of Land—I. Agricultural products, (a) Food-crops—rice, wheat, barley, maize, millets, pulses, fruits, vegetables and sugar (b) non-food crops—cotton, jute, oil-seeds, tea, coffee, indigo, tobacco, opium and cinchona. II. Mineral products—coal, iron, petroleum, gold, manganese, mica, saltpetre, zinc, and salt. III. Forests—their different kinds; utility of forests; Classification and administration of forests,—reserved, protected and unclassed; Sources of power—coal, wood-fuel, oil, wind-power, water-power; Hydro-Electric Schemes in India—Mysore installation, Kashmir project, Tata-Hydro-Electric Schemes;—The Ganges Canal Hydro-Electric Schemes, The Mandi project in the Punjab; Animal Resources.

CHAPTER XI

LABOUR 182—210

What Labour means; Productive and Unproductive labour; Malthusian doctrine of population; Supply of labour; Efficiency of labour—physical strength, intellectual strength, and moral strength. HUMAN FACTOR IN INDIA. Factors determining the density of population—Rainfall and climate, configuration and fertility of the soil; Irrigation, freedom from enemies, industrial development; Density and distribution of population; Growth of population; Vocational distribu-

tion of population; Health and vital statistics; Efficiency of labour in India.

CHAPTER XII

CAPITAL 211—261

Definition of capital; Origin of capital; Forms of capital; Functions of capital in modern production—the provision of subsistence, the provision of appliances, and the provision of materials; Efficiency of capital; Inland capital; Growth of wealth and capital—the power to save, the will to save, and the opportunities to save; Machinery—its advantages and disadvantages. CAPITAL IN INDIA. Agricultural capital; Large-scale manufactures—cotton, sugar, jute, woollen, steel and iron, tanning and leather, match, paper, glass industries; MEANS OF COMMUNICATION AND TRANSPORT. Road Transport; Rail-road competition; The present position; Railways; Their advantages—political, social and economic; Disadvantages; Waterways; IRRIGATION. A paramount necessity; Classification of irrigation works—well irrigation or lift works; tanks and storage works; Canals—the Sukkur Barrage and canals scheme; the Sutlej valley works; the Sarda-Oudh canals; the Cauvery Reservoir project; Irrigation works conditioned by natural factors; Advantages of irrigation; Defects of canal irrigation; A Greater Need.

CHAPTER XIII

ORGANISATION 261—301

The organiser—his importance and necessity; DIVISION OF LABOUR. Various forms of division of labour; Its advantages and disadvantages; Conditions of the division of labour; LOCALISATION OF INDUSTRIES; Causes of the localisation of industries—nearness of materials, nearness to power, physical and climatic conditions, accessibility to markets, momentum of an early start; Advantages of localisation; Disadvantages of localisation; THE SCALE OF PRODUCTION. Advantages of large-scale production; Limitation of large-scale production; Scale of production in agriculture; Advantages and disadvantages of small-scale farming; Farming in India; Vitality of cottage industries in India; Their present system of organisation; Suggestions for improvements; FORMS OF BUSINESS ORGANISATION—The single entrepreneur system; Partnership; Joint-stock Companies; Co-operative Production; Governmental Enterprise; LAWS OF RETURNS—The Law of Diminishing

xi
Returns; Causes of the operation of Diminishing Returns in agriculture; Applicability of the Law to Agriculture. Fisheries, mines, building sites, manufactures; The Law of Increasing Returns, The Law of Constant Returns; Diagrammatic representation of the Law of returns.

CHAPTER XIV

EXCHANGE 302—309

The meaning and necessity of exchange; The forms of exchange—
1. Barter—its inconveniences. (i) Lack of double coincidence of wants; (ii) the awkwardness of accommodating units of sales to units of purchases, (iii) want of a common denominator of value. II. Sale and purchase; Both parties gain in utility by exchange; The meaning of value and price; The machinery of exchange.

CHAPTER XV

MARKETS 310—318

Definition of a market; The evolution of markets—(i) localisation of markets, (ii) dealing by sample, (iii) dealing by grade, and (iv) specialisation of markets; classification of markets—Place markets, and Time markets; Boundaries of a market; Conditions of a wide market—1. Universality of demand, 2. Portability, 3. Suitability for grading and sampling, 4. Imperishability, 5. Supply of the commodity.

CHAPTER XVI

THEORIES OF VALUE 319—335

Determination of Price. The labour theory of value. The cost of production theory of value. The utility theory of value; Demand and supply theory of value. Equilibrium of demand and supply: market price. Normal price. Short and long periods. The short period price. The long period price.

CHAPTER XVII

MONEY 336

The evolution of money; Characteristics of a good commodity money; Functions of money; Definition of money; Coinage; Free and limited coinage; Classification of money systems of currency; Monometallism; Bimetallism; Paper money; Merits and defects of paper money; Gresham's Law; Appreciation and depreciation; Inflation and

deflation of currency; Effects of appreciation and depreciation; Indian currency.

CHAPTER XVIII

CREDIT, BANKING AND TRADE 364—410

The meaning of credit; Importance and advantages of the credit system; Evils of credit system; Is credit capital? The mechanism of credit; Credit instruments; Promissory notes; Cheques. Bank drafts; Bill of exchange; Hundies; Banks and their functions; Various classes of Banks in the Indian market; Indigenous bankers; Imperial Bank of India. Exchange banks. Indian Joint Stock Banks. Co-operative banks; Savings banks; Reserve Bank of India.

THE TRADE OF INDIA

Growth of Indian trade; Chief characteristics of the foreign trade; Chief articles of import; Chief articles of export; The direction of India's trade; Internal trade; Inland trade; Coastal trade.

CHAPTER XIX

THE PROBLEM OF DISTRIBUTION 411—418

What is Distribution; What is to be distributed; The shares in Distribution; General theory of Distribution.

CHAPTER XX

RENT 419—445

The popular meaning of rent; Economic rent; Contract rent and its determination; How rent arises; Ricardian theory of Rent; Criticism of the Ricardian theory; Margin of intensive cultivation; Rent does not determine price; Rent of building sites; Rent of mines, quarries and fisheries; Factors affecting rent—(a) Improved methods of cultivation, (b) Improved means of transportation, (c) An increase in population (d) The advance in civilisation; The unearned increment of land; Applicability of the Law of Rent to India; Land tenure in the United Provinces; Ideal system of land tenure.

CHAPTER XXI

WAGES 446—470

Wages defined; Nominal and real wages; Methods of wage payment; How wages are determined; Some peculiarities of labour; Trade Unions; Trade unionism in India, Mobility of labour; Mobility of

labour leads to equality of wages; Hindrances to mobility of labour in India; The changing environments; Influence of social customs; The caste system; The joint family system; Wages in India.

CHAPTER XXII

INTEREST 471—489

The definition of interest; Gross and net interest—1. The reward for waiting or net or pure interest, 2. Insurance against risk of loss—*a.* trade risks, *b.* personal risks, *c.* The earnings of management. The problem of interest; Should interest be paid? Why interest is paid?—A reward for service; How the rate of interest is determined? The demand for capital; The supply of capital; The rate of interest; Different rates of interest; The tendency of the rate of interest to fall; Interest and rent; The peculiarities of interest rates in India. Mobility of Capital—1. Some theoretical considerations 2. Mobility of Capital as found in India.

CHAPTER XXIII

RURAL INDEBTEDNESS IN INDIA 490—504

Causes of rural indebtedness—the point of unremunerative character of agriculture from the business point of view is brought forth—(i) the insecurity of harvests, (ii) the loss of cattle due to disease and famine, (iii) the excessive love of litigation, (iv) the moneylender and the provision of credit, (v) the extravagance of the cultivator, (vi) ancestral debt, (vii) change in the economic position of the agriculturist, (viii) illiteracy, (ix) land revenue policy and indebtedness; Remedial measures of the Government; What is co-operation? Its historical background; Rural and urban societies, Primary agricultural societies—(i) size and area of operation, (ii) liability, (iii) management, (iv) membership, (v) funds of the society, (vi) purpose and period of the loans, (vii) rate of interest, (viii) security for loans, (ix) audit, inspection and supervision, (x) division of profits; Effects of Co-operative societies in India—Economic benefits, Moral effects, Educative effects, Social effects, Administrative effects, Defects and drawbacks of co-operation in India—(i) Absence of understanding of co-operative principles, (ii) Illiteracy, (iii) Absence of thrift, (iv) defective audit, (v) High rates of interest, (vi) Inelasticity and inadequacy of co-operative finance, (vii) Government control, (viii) Predominance of agricultural credit societies.

CHAPTER XXIV

PROFITS	505—511
<p>The nature of profits; The constituents of profits—(a) Rewards of agents of production supplied by the entrepreneur, (b) Depreciation and maintenance charges, (c) Extra-personal gains, (d) pure or net profit; The marginal entrepreneur; The tendency of profits to fall.</p>	

CHAPTER XXV

BUSINESS OPPORTUNITIES IN INDIA	512—531
<p>Economy and efficiency—criteria of progress—the waste of natural, human and capital resources as going on in India is described; Industries awaiting development; Agriculture; A survey and scope of industrialisation; Textile Industries; Metallurgical Industries; Forest Industries; Chemical Industries; Leather Industries; Co-ordinated policies and programmes for a steady development of industrial activities is indispensable to avoid waste of effort.</p>	

CHAPTER XXVI

PUBLIC FINANCE	532—564
<p>Its meaning and importance; Public and private expenditures compared; Sources of public revenue—1. Public or State domains, 2. State enterprise, 3. Investments of the State, 4. Public loans, 5. Voluntary contributions, 6. Fines and penalties, 7. Revenue derived from the incomes of different persons and corporations; The meaning and nature of taxes; Principles or canons of taxation—1. Equality, 2. Certainty, 3. Convenience, 4. Economy, 5. Productivity, 6. Elasticity, 7. Simplicity. Kind of taxes—<i>direct</i> and <i>indirect</i> and <i>incidence</i>. Advantages and disadvantages of direct taxes.</p>	
<p>INDIAN FINANCE. Classification of Indian revenues; A. Central finance; Chief sources of revenue of the Central Government—1. Customs, 2. Income-tax, 3. Salt tax and opium revenue, 4. Excise duties on matches and sugar, 5. Railways and irrigation, 6. Posts and telegraph; Chief heads of expenditure of the Central Government—1. Direct demands for the cost of collection of revenues; 2. Commercial services; 3. Debt charges; 4. Civil Administration; 5. Military charges. B. Provincial finance; General statement of revenue and expenditure of the United Provinces, the C. P. and Berar and the Punjab for 1935-36; Chief sources of revenue of the Provincial Governments—1. Land</p>	

PREFACE TO THE FIRST EDITION

Economics, which the prophets of the Nineteenth Century denounced as the 'dismal science,' is now recognised as the most important of sociological studies. In the industrial countries of the West, a knowledge of Economics is considered one of the prime necessities for understanding the *milieu* of life as it has evolved to-day from the incipient civilisation. The problems which the Great War has set loose upon the world—such as the bankruptcy of nations, frozen credits and failing banks, the flight of the Pound or the Franc from the gold standard, the stupendous riddle of unemployment, the increasing recurrence and intensity of strikes—are and all may be directly traceable to the faulty systems of production, distribution and exchange. Even the Japanese occupation of Manchuria and the Italian aggression in Abyssinia can be explained and accounted for on a purely economic basis—the pressure of population and the consequent need for raw materials.

At any rate, this is certain, that a thorough understanding of Economics is absolutely essential for a fuller appreciation of the conditions of modern life. It is an indispensable part of a citizen's education. In India, in particular, where the social as well as the political orders are being re-shaped, it is all the more necessary to study Economics in relation to the peculiar social conditions.

This book is an attempt to give a concise, clear and unbiassed survey of the subject-matter of Economics for less advanced students. It covers practically the whole syllabus of the Intermediate Examination in Economics as laid down by the

Indian Universities and the various Boards of Intermediate Education. The students will find it extremely useful at all stages of their work, as economic theories have been discussed not only from the purely academic point of view but also in their application to special Indian conditions. If we succeed in creating in the students a genuine interest in the study of Economics and its impact on life, we will consider ourselves amply rewarded.

Our sincere thanks are due to Mr. N. K. Chaddha, M.A., LL.B., *Lecturer* in Economics, Bareilly College for his many kind suggestions, and ungrudging help.

BAREILLY COLLEGE

May 15, 1936

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S. S. NIRVAN

NOTHING
IN THIS BOOK.

A
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FOR
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CHAPTER I
SUBJECT-MATTER OF ECONOMICS

Definition of Economics

For almost every different object occupying space there is a separate science. Planetary motions, for instance, form the subject-matter of the science of astronomy. The science of metallurgy treats of the composition of metallic substances. Geology studies the history and composition of the earth. Biology carries on investigations in the realm of life forms and principles of plants and animals. Psychologists seek to understand human behaviour or consciousness. The subject-matter of Economics, in the same way, is man. Man, however, is the topic of discussion for a number of sciences. He figures in ethics, politics, psychology, biology, and in all social inquiries. Man remains engaged from morning till evening in all kinds of activities—religious, philanthropic, patriotic, social, and economic. Now all the activities of man do not fall within the province of Economics. Economics concerns itself only with man's economic activities. By economic activities are meant those human activities that direct themselves towards the creation, appropriation, and accumulation of wealth. Man's wealth-getting and wealth-spending activities alone, therefore, form the subject-matter of Economics. When a man is busy in doing things other than those concerning his livelihood he is behaving as a non-economic man. A tourist who climbs a

mountain merely to enjoy the beauties of nature is not performing an economic activity, but the activity of the guide accompanying him is economic because he climbs in the expectation of some reward. A musician who sings for pleasure is not performing an economic activity, but the activity of one who sings for a reward is economic. The farmer, the smith, the carpenter, the shoe-maker, etc., work not in sport but in order to earn their livelihood; hence they are carrying on economic activities. The activities of a lock-maker are economic because he works to earn something thereby; but King Louis XVI's activity in making locks was non-economic because he made them for mere amusement. Between a man who rows for pleasure and a boatsman who rows to earn a living, between a girl who spends her evening at a ball and the dancer who appears in a ballet, there is only one difference—the first rows or dances, solely to row, or dance, while the others do so to earn their living, and this is sufficient to call the activity of the former class non-economic and of the latter economic. Activities such as for love of country, love of art, pity, shame, religion, charity, etc., are not treated in Economics. Economics considers mankind as occupied solely in the making, exchanging, sharing, and using of wealth.

It must be emphasised, however, that Economics is a social science. That is, it deals with man in his relation to society. The economist is concerned with man only as a unit in society, as a member of a social organisation, and not as an individual. The actions, desires, and objects of a particular individual are of little importance to economic science; it is the average of the actions, desires, and objects of all members of society that matters. For instance, Economics does not study how wealth is produced and consumed by this individual or that but how wealth is produced, exchanged, distributed, and consumed in society. Marshall observes "Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being. Thus it is on the one side a study

point out the scientific laws that actually control production and distribution but also to show how national production and distribution of wealth should be regulated. Economics is not solely concerned with the study of wealth, but its investigations extend also to a consideration of matters which affect the welfare of man and of the community in which he lives. It has been shown that Economics in throwing light on practical problems and in indicating the best forms of economic organization has been serving humanity to a very great extent. Hence we see that the scope of Economics has been very much widened to-day. The economists of the present age, generally, treat it neither as a science alone, nor as an art alone, but both as a science and an art.

Divisions of Economics

For convenience of exposition and facility of study and analysis the subject-matter of Economics has been classified under the following heads:

(1) Introduction. In the opening chapters usually an idea of the nature, scope, and usefulness of the science is given, certain technical terms which are used too frequently in the course of the discussion of the subject are explained; and the main topics with which the science is concerned are shown.

(2) Consumption. The subject of human wants and their satisfaction is comprehended in the economics of consumption.

(3) Production. The economics of production contains the observation and analysis of the manner in which wealth is created by man.

(4) Exchange. How each man is able to barter his own surplus products for those which form the surplus of others but which are of great use to him is studied in the economics of exchange.

(5) Distribution. How the national dividend or income is apportioned among the different factors of production is explained in the economics of distribution.

(6) Public Finance. Public Finance enquires how much

wealth the government requires to fulfil its functions, how it obtains this wealth, and how it uses it.

It should be noted, however, that there is no strict line of demarcation between the different departments mentioned above. They are all interdependent and mutually act and react upon one another.

✓ **Relation of Introduction to other Departments**

Without a proper understanding of the introductory portion it is difficult to grasp clearly the divisions of Economics which follow this portion. Unless one knows the subject-matter of Economics it is not possible to follow the topics dealing with consumption, production, etc., which are merely branches of Economics. Besides, certain technical terms like 'goods', 'wealth' etc., recur again and again even in portions other than those dealing with introduction, and unless one has grasped their full import from the very beginning it is not possible to follow any discussion in Economics clearly.

✓ **Relation of Consumption and Production**

Consumption is the sole end and purpose of all production. The object of consumption is to derive utility by the destruction of the thing used. To replace this destruction of utility is the object of production. It is the consumption which gives stimulus to production. The consumers are the controllers of production because it is upon their decisions that the supply of goods and services depends. An increased demand for a commodity stimulates the production of that commodity. The industrial activity of a nation can be increased mainly by the growth of men's objects of desire. Production also affects consumption in its turn. If goods are not produced, there cannot be any consumption of them. Consumption is made possible because goods are produced. It is production which supplies the means by which man's wants are satisfied. The price of an article is as important as its utility in determining the quan-

of article
tity consumed. And the price of any article depends normally upon cost of production. If the cost of production of an article goes up, less of that article will, other things being the same, be consumed, and if the cost of production of the article goes down, more of that article will be consumed. And if the price (as a result of the very heavy cost of production) of the article becomes prohibitive, very little, if at all, of that commodity will be consumed. Thus production influences consumption.

Relation of Consumption and Exchange

If there were no exchanges each man would have to subsist on what he could produce directly himself, using his own and no one else's instruments of production. As things are, however, no one lives only on what he has himself produced but each lives on what has been produced by a vast number of other persons. This is the result of exchanges. If people had no wants, there would be no exchange either and the whole machinery of exchange would collapse. Besides, exchange value (i.e., the ratio of the number of units of one commodity to the number of units of another commodity for which it exchanges) is considerably dependent upon 'utility'—the very basis of the economics of consumption. Utility is indispensable to exchange value. The exchange value of things is founded upon their utility, or upon our wants for them, or upon the use we can make of them.

Relation of Consumption and Distribution

The connection between the consumption and distribution of wealth is very intimate. The kind of articles selected by the consumer depends upon the amount of his income. It is the length of a man's purse that decides what things he will consume and in what quantity. If, however, there had been no wants to satisfy there would not have been any production, and if wealth had not been produced there would not have been anything to distribute. The amount of income that each factor of production gets from the national dividend is indirectly

dependent upon the consumption of the people. If the standard of living of the people is high, which means if they want to consume more and better and varied kinds of goods, there will be greater production on the part of such a people, which will augment the national income. Similarly, if the standard of living of the people is low, less will be produced and consequently there will be less of that which has to be distributed. Thus we see that the national dividend or that which is distributed is ultimately dependent upon consumption.

Relation of Consumption and Public Finance

The Government (mainly by taxation) in certain cases exercises a great control over our consumption. In those cases where the consumer is not the best judge of his own real interests or of the real value of the articles consumed, the Government has controlled the production and sale of such articles. Thus in most countries the sale of intoxicants and the prescription of medicines have been placed under legal restraint. At the same time also laws with detailed provisions have been enacted against various forms of adulteration of articles of consumption. The Government, if it likes, can make it impossible for the consumers to make use of a certain article by subjecting that article to a very heavy tax.

Consumption also can affect, and actually affects, public finance. In all cases of indirect taxation the income of the State is dependent upon the amount of goods consumed in a country. If more goods are consumed the Government's income from taxes increases, and if less goods are consumed its income automatically goes down. The budgetary dislocations in most countries of the world are often due to the uncertainty of the income that the State expects from indirect taxes. Most of the activities of the Government can be paralysed if the consumers decide to make use of only small quantities of a few commodities.

Relation of Production and Exchange

Men are able to devote themselves exclusively to one occu-

pation because the product of that occupation can be exchanged for the products of other occupations. The division of labour, the localisation of industries, large-scale production, and the use of machinery, etc., have been rendered possible due to the practice of exchange. Production besides being dependent on exchanges also affects the machinery of exchange. If there had been no division of labour, no localisation of industries, etc., the problem of exchange would not have arisen at all. Only when each man took up the practice of producing one article the need for exchange arose.

Relation of Production and Distribution

Production affects distribution very considerably. That alone can be distributed which has been produced. The quantity of goods and services to be distributed is absolutely dependent upon the amount of goods and services produced in a country within a certain time. More or less is distributed according to more or less production. Distribution in its turn also influences production. The rich consume those luxuries, which, if wealth were equally distributed, would either be not produced at all or, at any rate, not to the same extent. Distribution affects also the productive capacity of a nation. If there is more equal distribution of wealth the efficiency of workers would increase because of their increased standard of comfort and this increased efficiency of the workers will enable them to produce more wealth.

Relation of Production and Public Finance

No accumulation of capital and hence no production of wealth is possible in a country in the absence of security of life and property. And this security of life and property is provided to the people by the Government of that place. Production of wealth is further dependent to a great extent upon the proper development of the means of transportation and communication. It is the Government which provides and looks after the country's means of communication and transport. Production also depends upon the fiscal and other policies of

the state. By levying no taxes on raw materials and necessities of life, and by granting protection to the home industries Government can help considerably in the production of wealth in a country. Production, however, also affects the public finance. The income of the Government is dependent upon the income of the people. If the people of a country do not choose to produce more wealth, the Government of that country can never prosper. If, on the other hand, people produce more wealth and are better off, the income of the Government will also increase and it will be in a better position to perform its functions efficiently.

✓ Relation of Distribution and Public Finance

In a communistic society where the total produce of the community is, by the agency of Government, distributed to individuals according to considerations of need, without regard to their ability, the part played by the State in the matter of distribution is quite obvious. Even in the existing individualistic system of distribution where the rights of private property are recognised the Government, however, influences the distribution of wealth by guaranteeing minimum wages to workers at times, by recognising the rights and efforts of labourers to raise wages by combinations against the employers, and by forcing the employers to contribute towards sickness, accident, and unemployment insurance schemes, etc., On the settlement of the questions concerning the division of the social income depends the peace of society. Errors concerning the law of distribution strengthen the hands of social agitators against the Government. If it were a general conviction that the national income is shared according to an unjust principle, no force could prevent an overturning of the existing form of Government in a country. Thus the problems of distribution and public finance are very closely connected with each other.

It must be quite evident now that the various branches of Economics cannot be divorced from one another, or discussed to any purpose in isolation.

Relation of Economics to other Sciences . .

For the purpose in hand it is convenient to divide the sciences into two great groups, namely, the moral or mental sciences (such as politics, Ethics, Psychology, Economics, etc.) which have to do primarily with laws of mind, and the physical or natural sciences (such as Physics, Chemistry, Geology, Botany, Astronomy, etc.) which are primarily concerned with matter. Economics is closely related to almost all the sciences—whether mental or physical—of the world, but her relationship with the moral or mental sciences which deal primarily with man, is more intimate because it also has man as its subject-matter. Let us see how Economics is related to some of these sciences of both kinds.

Economics and Sociology

Sociology is that science which imparts the knowledge of the constitution, phenomena, and development of the whole society. It is the science of the associated life of humanity. The data of sociology consist of all social facts. Therefore, it is also termed as the Science of Society or Social Science. Economics takes only one aspect of human society and action, it being concerned with man solely as a being who desires to possess wealth, and so it is a part of sociology. Economics treats of the laws of the production and distribution of wealth, not so far as they depend on all the phenomena of human nature, but only so far as they depend on the pursuit of wealth. Though the study of Economics is confined only to one particular point of view, it has necessarily to take account of facts that belong to other divisions of social enquiry. In solving the problems relating to the distribution of wealth men are not entirely concerned with the question of gain simply. Social surroundings, and other pecuniary motives also affect their decisions. The love of country, the love of power, the desire for personal esteem, public spirit, public opinion, sympathy, feelings of ill-will and duty, prevalent ideas as to what is just and fair are some of the forces that exert a great influence upon the distribution of wealth. Wages are affected by combinations

amongst the labouring classes also. The mobility of labour is affected by legislations of all kinds. The causes of variations in the supply of labour depend on the social, intellectual, and moral circumstances that determine men's standard of living as well as on such conditions as the price of necessities of life. The motives for the production and accumulation of wealth vary again in different instances. Industries at times have been stimulated purely by religious motives. It is clear, therefore, that though in Economics the pursuit of wealth is the main force of which account is taken yet the facts of economic life are influenced by the various aspects of social life such as political and social institutions.

Economics and Ethics

Ethics is a system of moral principles; it is the science of the ideal human character. Men's economic activities are often determined partly by moral considerations. No problem relating to human conduct can be solved satisfactorily until its moral aspects have been considered. The statement that the distribution of wealth in a country should aim at realising justice or should be so carried on as to give each individual engaged in industry and trade the just or fair remuneration for his services is as much an ethical proposition as an economic one. Many economists have given expression to the idea that the fair price of a productive service is that price which renders possible the maintenance of the producers and their families in a state of health and efficiency. The influence of ethics is quite apparent here. The question as to whether existing institutions, or laws, or customs, are right or wrong is judged partly by a moral standard. Again, questions like what constitutes a 'just price,' 'is it right to sell a thing for more than it is worth,' cannot be answered adequately without the help of ethics. It is clear, therefore, that ethics materially influences the science of Economics in its practical discussions. So close is the relationship between the two sciences that Economics has been described as "the handmaid of Ethics."

Economics and Psychology

Psychology is the science of mind; it investigates the laws of consciousness and deals with the working of the mind. Economics deals with man's efforts to supply wants and satisfy desires concerning his bread and butter. 'Want,' 'desire,' 'effort,' 'satisfaction,' are each and all mental phenomena and come, therefore, as much within the jurisdiction of psychology as of Economics. The law of Diminishing Utility, the Law of Substitution, the Laws of Demand and Supply, etc., merely explain certain traits of the working of the human mind. The whole discussion of 'Value' depends intimately upon considerations of psychology. The famous remark of Prof. Foxwell that Economics is "anchored in psychology" well points out how closely Economics is related to psychology.

Economics and Politics

Politics is the science and art of government; it is the science which deals with the organisation, regulation, and administration of a state, in both its internal and external affairs. Without a sovereign power a society is almost unthinkable, since men's aims and methods of doing business vary and often lead to conflicts. There are frequent disputes and unfair practices which are settled by the Government. The necessity of government and its laws are imperative to control economic activities. Peace and security of life and property are indispensable for the production of wealth, and these are provided in every country by its Government. There are many other ways in which the States influence the field of economic activity. The production and sale of intoxicating drinks is governed by law. The terms of the documents regarding an exchange of goods, of securities and other titles to income or wealth, of credit instruments, etc., cannot be violated. It is the Government which enforces these contracts. Immoral traffic of all kinds is illegal, even if agreed upon by both parties. Workers cannot be engaged on conditions restricting their natural freedom. Trade unions are associations formed under the protection of the law. Many of the

problems such as the control of monopolies, trusts, management of railways, public finance, laws regulating banks, factory legislation, etc., have both an economic as well as a political aspect. Countless measures are passed by legislatures to regulate competition. Production and distribution of wealth in a country are materially affected by the kind of Government of that place. It is clear, therefore, that Economics and Politics are almost 'wedded' to each other.

✓ Economics and Statistics

Statistics is the science of the collection and classification of facts, especially those facts which can be stated in numbers, or in tables of numbers. There is no branch of human knowledge where the marshalling of figures and observation of mass of facts is not necessary. But for determining the laws of Economics and, as a matter of fact, of all the social sciences, there being little room for experiment, statistical enquiry is the only possible mode of investigation. Malthus based his theory of population upon elaborate statistical enquiries. Ricardo's assumption that best lands are cultivated first was based on statistical data. The statement that labour in modern times tends to move from the ill-paid to the better-paid localities is based on statistics. The tendency of financial crises to occur at certain intervals was in the beginning disclosed by statistical observations. The problems such as whether during the last so many years the value of gold has appreciated or depreciated, whether the position of the working classes today is better or worse as compared to the last thirty or forty years, whether trade is flourishing now or is depressed, etc., are statistical in their very nature. The economic condition of a country cannot be described adequately unless we have the statistics of production, wages, prices, exports and imports, taxation, national indebtedness, etc. Statistics, therefore, is of immense service to the economist.

✓ The Nature of Economic Laws

The term "law" is used in various senses. In its legal

sense it is understood as an ordinance of government. Law, in this sense, is a rule of conduct or action which is prescribed by the governing authority and is enforced by a sanction. In its scientific sense law means a statement of relation between cause and effect. In this sense it is a statement of the relation of phenomena which is invariable under the given conditions. Economics being a science, the term "law" in its discussions is naturally used in the latter sense. Economic laws, therefore, are simply statements of relations between cause and effect of economic phenomena. All the laws of the different sciences are, however, not similar in nature. Laws of the physical or natural sciences are universally true and must always happen without any exceptions or variations. The famous formula H_2O of Chemistry, for instance, is of universal applicability. Whenever and wherever under certain conditions of temperature, pressure, etc., one atom of oxygen is placed in contact with two of hydrogen, it cannot help making water. Similarly, whenever an atom of sodium is mixed with an atom of chlorine, sodium chloride (common salt) is inevitably formed. The law of Gravitation in physics states how bodies attract one another, of which the fall of a body to the ground is an example. The apple cannot refute the law of Gravitation by refusing to fall to the earth. Economic laws, on the other hand, do not possess universal validity. They are true only within a limited sphere. The law of Diminishing Utility which declares that the increasing supplies of an object of consumption becomes less attractive to a consumer is not rigid in its application and has no mathematical boundaries. "It is certainly not an easy matter to tell how many horses would satisfy a sportsman, or how many dresses would lead a fashionable woman to cry 'Enough!' or the number of rubies desired by an Indian rajah, or how much money would completely satisfy the wants of a civilised man." The law of Diminishing Returns which declares that the additional doses of capital and labour applied to the cultivation of land produces less than proportionate returns is not invariably true. Its operation is often retarded by a change in the skill of the cultivator, a change in the art of cultivation, or by the

insufficiency of the earlier doses of capital and labour. The law of Population which states that the population increases in geometrical progression is counteracted by preventive and positive checks. The Ricardian law of Rent does not apply universally in the form in which it is stated. Even the most universal laws of demand and supply may be offset by counter-acting forces. A rise in the price of an article need not necessarily result in a lessening of the demand for it if, for instance, the rise in price has been accompanied by the discovery of new uses of the commodity. If at two different shops in the same neighbourhood an article of a particular kind sells at different prices, naturally people will purchase the commodity in question from the cheaper of the two shop-keepers. From this it is not unnatural to hazard a law that people try to purchase things from the cheapest seller. But even such an obvious law need not necessarily be of universal applicability. Some people might choose to buy dear to attain social distinction, or to discourage sweating, or due to any other extraneous reason. When man melts gold coins to obtain bullion he melts the full-weight coins and not the coins having light-weight. Economic laws, hence, are not immutable laws like the laws of the physical sciences. The laws of the natural sciences are exact and of universal application because they deal with things which have no volition. They deal with things which cannot help taking place and have no choice of their own to exercise. The laws of Economics are inexact because of the very nature of its subject-matter which deals with living and free men who possess volition and who often have their individual whims and caprices. In Economics the conditions are dependent on the variations of human feelings, passion, sentiment, and taste. The great complexity and variety of circumstances which surround every economic problem are such as to render the enunciation of exact and general laws impossible. Prof. Marshall aptly remarks that "the actions of men are so various and uncertain, that the best statement of tendencies that we can make in a science of human conduct, must needs be inexact and faulty." It is clear, therefore, that the laws of Economics are not, and

cannot be, as exact as the laws of the physical sciences and for that reason many economists now prefer to call economic laws, merely as statements of tendencies, and not laws, because they are understood to mean exact and absolute statements. The term "law" in Economics therefore means in the words of Marshall "nothing more than a general proposition or statements of tendencies, more or less certain more or less definite." Economic laws are thus expressions of tendencies merely, and not exact statements of cause and effect. When an economic proposition is laid down it is not alleged that *every* man *must* behave in a certain way, but that on the whole men behave and will behave in a certain way. Economic laws do not say 'all men do this,' but only, 'most men would do so.'

Methods of Economics

The procedure of discovering the facts or laws of a subject goes by the name of 'Method.' The methods of Economics, therefore, are the ways employed for investigating and finding out economic laws. Our task here is to find out those processes which are specially followed and are most suited for the investigation of the truths of economic science.

There are two logical methods—the deductive and the inductive—which are generally employed for discovering the truths of different sciences. Deduction is that form of reasoning where some axiom or proposition is taken for granted and conclusions are drawn from this general premise. The conclusion can, therefore, never be more general than the accepted proposition itself. The conclusion, as a matter of fact, is always contained in the major or accepted premise. To illustrate: 'All men are mortal,' 'Narayan is a man,' therefore, 'Narayan is mortal.' This form of reasoning is deductive, where we pass from the general to the particular. In deduction, as the name signifies, we deduce new conclusions from fundamental assumptions.

Under the inductive form of reasoning general propositions are not taken for granted but are formulated on the strength of the examination and comparison of many individual

instances. Under inductive method the points of similarity discovered in the various instances under examination are put forward in the form of a general statement or law. Later these conclusions are further tested with reference to more facts. When a number of corks are thrown in water and when we find that each one of them floats on it we are naturally tempted to form a general proposition, namely, that 'All corks float on water.' This method of arriving at a truth is inductive. Unlike the deductive method here we reason from the particular to the general and not from the general to the particular.

Having noted the various methods that are employed for arriving at truths of different sciences, it now remains for us to investigate whether the method of Economics is deductive or inductive. There is no consensus of opinion on this apparently simple question. A considerable difference of opinion exists as to the method by which the subject of Economics should be investigated. Some economists are of the opinion that Economics is primarily an abstract science and that its method is essentially deductive. They try to base the whole science of Economics on some fundamental assumptions which they have taken for granted as being part and parcel of human nature. One of the more important assumptions of this school is that all persons engaged in business will, in selling goods or services, try to get as much wealth as they can in return for the goods or services they offer. The critics of this method point out that this assumption is not necessarily true and that men are often induced, to render services of diverse kinds by family affection, friendship, compassion, patriotism, and by many other motives. Then there is the assumption of the deductionists that a man prefers a larger price to a smaller for his labour. But for the love of reputation, disagreeableness of the better-paid job, future prospects, opportunities for supplementary earnings, etc., a man often prefers to have a smaller remuneration to a larger one. The assumption that man desires not only to obtain as much wealth as possible but he wants to get it by the least possible amount of labour is equally open to objection. Many persons work assiduously, however, unmindful of the

rewards they are expected to receive simply because they derive a sense of happiness out of their work. The method of deduction in Economics, therefore, consists of taking a few premises about man as indisputable, and on the basis of these propositions the science is constructed. And as the data chosen do not necessarily agree with facts, the conclusions arrived at with the help of such data are bound to be defective.

The deductive method, which argues from general principles to particular cases, being dogmatic, dangerous and unsuitable for economic enquiries, the writers of the second school of thought, namely, the inductionists, point out that it is incumbent upon economists to return to reality in order to formulate their principles and theories. These writers claim great merit for the inductive method because, here everything is based upon hard facts and point out that it is the only suitable method for economic science. (The inductive method is also known as the historical method on account of its special insistence on the importance of historical material in building up the science of Economics). In the field of Economics this method consists in the observation of social facts as they are revealed to us, and on the basis of these observed facts general propositions are formed. The law of Diminishing Returns, for instance, is the outcome of the inductive method. The comparison of production on a large and on a small scale is based on induction. It is through induction that we know about the causes that encourage accumulation of capital in a country. Malthus formulated his theory of population by pursuing the inductive method of enquiry. Now the deductionists, in their turn, point out that it is delusion to suppose that the inductive method can ever be serviceable in the social sciences for various reasons. Firstly, in the social sciences the observation of facts is very difficult. Secondly, social facts are limitlessly diversified and are usually very complex. And lastly, there is the immense difficulty, if not impossibility, of carrying on experiments in social sciences, because it is very difficult to observe the effect of any single cause coming into operation in the midst of an unchanging environment. The economists cannot easily experi-

ment with human beings. The deductionists point out, therefore, that whatever may be the suitability of induction in other sciences, it is in no way suited to investigating economic laws. If pure deduction is inadequate, pure induction also is equally inadequate.

The difficulty of formulating any general principle by the first or the second method alone led to that combination of induction and deduction which holds the field in economic discussions in recent years. The position taken up by modern economists is in the tone of moderation and in an attitude of compromise. According to these economists the solution of the contest about method does not lie in the selection of deduction or induction, but in the acceptance of deduction and induction. In the words of an eminent economist, "induction and deduction are both needed for scientific thought as the right and left foot are both needed for walking." We have, therefore, to approach the various problems of Economics with both the methods. Which method is most to be used depends on the nature of the particular problems we are investigating. In treating of the production of wealth, for example, the inductive method is pre-eminently employed. In the discussion of the theories of distribution and exchange, on the other hand, the method that is primarily made use of is deduction.

Usefulness of the study of Economics

When a man sets out upon any course of inquiry, the object of his investigation may be either theoretical or practical—either the inquiry is conducted for the attainment of pure knowledge or for the sake of the good things to which that knowledge leads. Economic study is no exception to this and likewise has a twofold aspect—the theoretical or the light-bearing and the practical or the fruit-bearing. Those who study Economics benefit considerably by a breadth of outlook and a wider conception of men and of matter. Economics teaches us a large number of truths about man in relation to wealth. It is through the study of Economics that we know of the laws and causes that govern the consumption, production, distribution, and

exchange of wealth. The organisation of industry and trade, conditions of the money market, characteristics of the foreign trade, factors that determine the efficiency of labour, causes affecting density of population, the problem of the determination of price, etc., are some of the innumerable things that we learn as a result of economic study. Economics, therefore, is worth studying for its own sake as a mental exercise. But few people are satisfied with a science which merely provides interesting mental gymnastics and serves no material purpose. The teachings of Economics are not without practical use. Its fruits have been varied and considerable. It deals with some of the most important subjects which concern society. It has profoundly affected the legislation of every civilised country. Indeed, the main use of Economics is to assist in the betterment of human life. How an increase in the income of the poorer classes can be brought about; how employment to the educated classes can be provided; how the burdens of taxation should be distributed among the different classes of society; how the problem of acute indebtedness among the agriculturists can be tackled; how the evils of fragmentation and scatteredness of holdings can be avoided; how better distribution of wealth can be obtained are some of the many problems that the economist tries to solve. The various Factory Legislations, Mining Acts, Trade Union Acts, Workmen's Compensation Acts, Unemployment Insurance Schemes, Maternity Benefit Schemes, Co-operative Societies Acts, Debt Acts, Tenancy Legislations, Rural Uplift Schemes, etc.,—both in India and outside—are some of the numerous practical achievements of the study of Economics. Prof. Marshall has well remarked that “Economics has then as its purpose firstly to acquire knowledge for its own sake, and secondly to throw light on practical issues.”

*What a nice
time is it to play
with*

CHAPTER II

GOODS AND WEALTH

We have noted before that Economics is that social science which deals with man's activities in relationship to wealth. It remains for us, therefore, to tell what wealth is. Before explaining the term, 'wealth', let us, however, take another term, 'goods,' the meaning and classification of which should be clearly understood before determining a definition of wealth.

Goods

✓ The term 'goods' denotes any object of human desire. All those things that satisfy human wants are called goods. Air, sunshine, water, food, clothes, shelter, books, cigarettes, wine, love of parents and friends—each of these is 'goods' because it tends to the satisfaction of human want. The chief feature of goods is that they satisfy our wants, that they are desirable, agreeable, useful, that, in brief, they possess what the economist terms 'utility'. The utility of a commodity is simply its capacity of fulfilling a want or of satisfying a desire.

Goods may be classified in more than one way when viewed from different standpoints. They may be classified as:

✓ (1) *Free Goods and Economic Goods*:—Those goods whose capacity to yield utilities is not due to human effort are 'free goods'. Free goods are not man's products; they are not the results of human effort or sacrifice. For example, permanent properties of the soil, inherited personal aptitudes, trees in forests, the fish of the sea, air, sunshine, water, climate, etc., are all free goods because they have been freely handed over by nature to the people without any effort on their part. Free goods are also called 'gratuitous goods' or 'natural goods.' On the other hand, all those desirable things which are the results of human effort are 'economic goods.'

Economic goods include all those things that have required effort or labour to produce. Thus buildings, books, furniture, trees planted by man, wheat, rice, etc., are all economic goods because their capacity to yield utilities is due to human effort. Water also, for instance, becomes an economic goods after it is conveyed by pipes from a reservoir for the use of inhabitants in a town because its conveyance has required human effort.

✓(2) *Consumption Goods and Production Goods*:—Those desirable things which satisfy human wants directly are called consumption goods. Food, clothes, houses to live in, etc., are consumption goods because they are used for the direct satisfaction of human wants. Consumption goods are also called 'goods of the first order.' Production goods are those desirable things which satisfy human wants indirectly by contributing towards the production of consumption goods. Raw materials, ploughs, looms, machinery, etc., are all production goods because they assist in the satisfaction of human wants only indirectly. Production goods are also called 'goods of the second order,' or 'instrumental' or 'intermediate' or 'auxiliary goods'. (There is no sharply demarcated lines between consumption and production goods. The same thing can be a consumption goods from one point of view and a production goods from another point of view. Suppose an employer has a stock of clothes and food for his labourers; the clothes and food will be consumption goods for the labourers but they will be production goods from the employer's point of view).

✓(3) *Transferable Goods and Non-Transferable Goods*:—Transferable goods are those desirable things which can be bought and sold. If A is in a position to choose whether he shall confer a benefit on X or on Y, such a goods may be called transferable. A transferable thing need not always be a transportable thing; it is simply a thing inherently capable of being bought and sold. Books, pencils, land, agricultural products, buildings, good-will of a business, etc., are all transferable goods because they are capable of being bought and sold. Non-transferable goods are those useful things which are incapable

of being bought and sold. Non-transferable goods are either (a) material, e.g., opportunities of using public property or natural gifts such as the advantages of climate, air, sunlight, etc. or, (b) personal such as a person's qualities and faculties for action and enjoyment. The dexterity of a violinist or carpenter or painter, etc., are some of the examples of personal non-transferable goods.

↓ (4) *Internal Goods and External Goods*:—An internal good is that desirable thing which a man finds within himself and which cannot be separated from him. The capacity of an advocate, the artistic taste of an artist, the skill of the carpenter, the voice of a musician are all internal goods inasmuch as the said capacity, taste, skill, and voice cannot be separated from the possessors of these gifts. External goods consist of all those desirable things that the outer world offers for the satisfaction of man's wants. They do not form part and parcel of man's self. Bread, sunlight, climate, good-will of a business, furniture, etc., belong to the class of external goods.

↓ (5) *Material Goods and Immaterial or Non-Material or Personal Goods*:—In the words of Prof. Marshall, "Material goods consist of useful material things, and of all rights to hold, or use, or derive benefits from material things, or to receive them at a future time." Land, water, air, climate, mining, fishing, manufactured articles, agricultural products, machinery, implements, buildings, mortgages, shares in companies, patent-rights, copyrights etc., are all included under the head of material goods. Immaterial goods are of two kinds: (i) Internal: Internal immaterial goods consist of man's own qualities and faculties for action and enjoyment. For instance, man's business ability, professional skill, and the capacity of enjoying music and reading are internal immaterial goods inasmuch as these lie within the man himself. And (ii) External: External immaterial goods consist of man's relations, beneficial to him, with other people. A suitable example under this head is that of a good-will of a business.

Wealth

This is one of those terms in Economics about which there is a considerable difference of opinion and hence the term 'wealth' has been defined in a variety of ways. According to some, anything which satisfies human want is regarded as wealth. (In this sense wealth and goods are the same)] Some confine the term to those things which satisfy human wants and are limited in quantity, others understand by the term those things that are produced by man's labour, and yet others say that transferability is an essential attribute of wealth. We are, however, inclined to adopt the definition of wealth as given by Marshall as that seems to be the best and the most reasonable one. Wealth in this sense, includes two classes of goods: (1) all material goods, and (2) all external immaterial goods. Wealth, therefore, consists of all material goods plus all external immaterial goods. In other words, all goods other than internal immaterial goods are included in wealth. Or to be briefer still, all goods except internal goods are included in wealth. Rivers, mountains, ocean, good climate, roads, museums, food, clothes, houses, etc., are all wealth because they are not internal goods. The skill of the painter, the voice of the musician, business connection attached to a particular person, the capacity of an actor, etc., are not wealth because they are internal goods. Internal goods have not been included in wealth because it is considered desirable not to confound man, on the one side, and the wealth to which his activities have reference, on the other side.

Individual's Wealth

An Individual's wealth consists of:

- (1) All the material goods possessed and owned by the individual to which he has private rights of property, e.g., land, houses, ornaments, clothes, etc. (If the individual has any debts to pay they must be deducted from his total possessions before his wealth can be assessed);
- (2) All his external immaterial goods, e.g., the good-will of his business and the organization of his business, and

(3) An individual's share of the common wealth, i.e., those material goods which he shares in common with his neighbours, e.g., the benefits which an individual derives from living in a certain place, civil and military security, the right and opportunity to make use of public property and instructions of all kinds, right to justice, right to education, etc.

National Wealth

National wealth consists of:

(1) The sum of the wealth of all individuals who are members of the nation. (Debts from one member of the nation to another member are to be omitted).

(2) Public material property of all kinds which belong to the nation, but not to any one individual, e.g., parks, canals, railways, public buildings, public libraries, roads, etc.

(3) All free goods owned by the nation, e.g., rivers, mountains, climate, natural resources, natural harbours, etc., and

(4) Non-material elements of national wealth, e.g., the organization of a free and well-ordered state.

(The terms 'social wealth,' 'collective wealth,' 'communal wealth' and 'common wealth' are also used at times to indicate what we have just described as national wealth).

Cosmopolitan or International Wealth

Cosmopolitan wealth is the wealth of the whole human race. It is the wealth of the world as a whole. It consists of:

(1) The wealth of all the nations. (Debts due from one nation to another nation must be omitted), and

(2) Those goods which belong to the world as a whole, e.g., ocean, scientific knowledge, mechanical inventions, etc.

CHAPTER III

THE DEVELOPMENT OF ECONOMIC LIFE

To have a clear insight into our present economic system it is necessary to enter into a consideration of the various economic stages through which society has progressed in arriving at its present development. In considering these stages no note is taken of the pre-historic age because facts, worthy of consideration, are not available for that period. Only regular stages in economic evolution are, therefore, treated. The stages of the history of man's efforts to get a living have been variously classified. These classifications of the course of man's economic development are usually based upon (1) his means of procuring goods; (2) his ways of exchanging goods; (3) from the standpoint of the wage-earning labour; and (4) from the point of view of the development of the economic unit. For our purpose we have adopted the first basis of classification, namely, the one which is based on the increasing power of man over nature because that is the most generally accepted basis of classification of the development of the economic life of man. Starting thus, the course of man's economic development has been divided into five stages, as follows:—

The Hunting and the Fishing Stage

The primitive man had few wants to satisfy. He did not know to make or produce things and contented himself with whatever was available at hand. He lived mainly by hunting and fishing and by acquiring the fruits which grew wild about him, and employed the skins of animals and barks of trees for clothing. When a man's only source of living is the products of the chase, and when game is not available he willy-nilly has to resort to cannibalism in order to satisfy his most pressing

and insistent want of food. War became an economic necessity whenever food was not available and the enemies taken in war were used for eating purposes. The practice of cannibalism was necessitated because of the economic conditions of the time. He had plenty to eat at one time and had to face starvation at another because meat and fish could not be stored for a long time. He could not, therefore, make a provision for the future. He had no fixed abode because he had constantly to move about in search of food. This being his condition of life, the population then was bound to be sparse. There was no idea of ownership of land because it was not useful in those days. Private property was confined only to arms of war, such as the spear, the bow and arrow, and some stone implements which were used for killing the prey-animal. People lived in isolated families, and, hence, the question of exchange of goods, division of labour, trade etc., did not arise.

2. The Pastoral or Nomadic Stage

In this period man evinces a little higher type of culture than was possible in the preceding stage. The food supply of the people of the first stage being very insecure because of their utter dependence on nature for it, they attempted to domesticate and breed animals in order to insure a continuous supply of food even when game was not available. When hunting tribes do not depend for food solely upon the killing of animals and take up to the art of taming and breeding them, we have what is known as the pastoral stage. Man still does not know how to raise grass and other materials for his flock. On account of this he has constantly to move about from place to place in search of new pastures when old ones are eaten up. Fixed and settled abodes were, therefore, impossible. Conflicts still took place frequently when different families and tribes came in the way of each other in the attempt at temporary monopolisation of pasture land. The victims of war were not used for eating purposes as before, but instead were employed as slaves for tending and looking after the flock of the victor.

Thus the practice of cannibalism gives way to the institution of slavery. In the modern sense of the term even in this period there was no ownership of land. Tribes did lay claim to certain areas and tried to keep others from pasturing there but this was done only for a time. As soon as the existing feeding-grounds were exhausted, they relinquished them for new ones. Private property now consisted of not only some useful weapons but of flocks and slaves as well. With the owning of some private property it was inevitable for the distinction between the rich and the poor to crop up, and that distinction did arise in this period. The property after the death of the headman of the family generally passed on to other members of the household, and this gives us a glimpse in the beginning of the idea of inheritance. As each family was still self-sufficient there was little exchange or commerce.

The Agricultural Stage

This stage evolved somewhere near the tenth and eleventh centuries. The subsequent stages in the progress of time have not wholly displaced this stage but have only modified it. The characteristic features of this stage are present even in the existing industrial stage all the world over and in India about seventy-one per cent of the people are still directly dependent upon agriculture. In the attempt to get a continuous and certain supply of food both for himself and his animals man in this stage picks up the knowledge of cultivation and acquires control over the forces of nature. Agriculture was added to the already existing sources of livelihood. When man took to cultivation, the wandering life had to be given up and fixed abodes developed. A corporate life in the form of villages, etc., was the inevitable result of man's taking to permanent abodes. As a result of people's living in close association the idea of 'neighbour' and 'stranger' came to the front. Population began to increase fast as it became now possible to feed more mouths. With the adoption of agriculture the development of the idea of the private ownership of land was inevitable and people

began to prize land. The institution of slavery was further strengthened because labourers were required in large numbers to help in the tilling of the soil. With the increase in the wealth of the people, the tendency to trade and commerce also increased.

The Handicraft Stage

Man contented himself so far with what nature gave him or what he could raise from the earth. Hereafter he also begins the work of making and manufacturing things. Man makes things either directly by the hands assisted by ordinary tools or indirectly with the help of machinery. In this stage man manufactured things directly by his hands. The word 'manufacture' itself meant in those days making things by hand. Handicraft means a trade requiring skill of hand and because in this period hand was chiefly used for the making of things the stage goes by the name of the handicraft stage. This stage lasted, roughly speaking, from the latter part of the Middle Ages to the era of machine production. Though man took up the work of making things, agriculture still continued as the most important single industry of the people even in this stage. Labour and capital become distinct and important factors of production hereafter. Man began the work of wearing fabrics, making diverse kinds of metal, wooden and earthen articles, and transforming other raw materials. Specialization and division of labour came in with the coming in of manufactures. Different persons adopted different occupations such as the work of blacksmiths, shoemakers, weavers, carpenters, potters, etc. So long as each man was engaged in the same kind of business there was little scope for commerce. But when man began to specialise and each man took to one distinct occupation and made articles of only one kind, it became inevitable for him to exchange his superfluous articles with the excess articles of others which he was in need of and which he himself did not make. Exchange, trade, and commerce all necessarily developed with the development of manufactures. The

progress of manufactures is also closely followed by the development of that class of dealers known as middlemen. On account of the difficulties and the inconveniences of the barter system, it had to give way to the money economy system. Some of the villages which had become important manufacturing centres began to develop into towns. Different trades had their separate guilds to organize them. These guilds prescribed the way in which the business was to be carried on, the number of persons to be admitted to them, and the manner in which the trade could be learned. The right to trade within the town and in the surrounding country was reserved for the townsmen. The institution of serfdom takes the place of slavery in this stage. The products of the artisans of other towns could be admitted into the town market only under severe restrictions. Those goods which could not be produced in the town could be introduced from other towns but as a rule nothing which could be produced in the town was to be imported from outside. There were no proper facilities for transportation in this stage. Bullocks and packhorses were the most common means of transporting goods.

The Industrial Stage

When man begins making things indirectly through the help of machinery and works with other than man's power, we enter upon what is known as the industrial stage. This is the era of power manufacture as opposed to hand manufacture which was the characteristic feature of the handicraft stage. This is the stage in which we are living. It dates from the year 1760. With the invention of James Watt's steam-engine, Kay's shuttle, Hargreave's spinning-jenny, Crompton's mule, Cartwright's power-loom, and Eli Whitney's cotton gin, etc., there took place a rapid transformation of the handicraft stage into that of the industrial stage. As it was impossible for every workman to own costly machinery, the result of all these inventions was to give birth to the factory system of production. Only wealthy persons could now equip their workshops with

these high-priced machines. The introduction of factory system brought, in its turn, the question of employer and employed. Large-scale production and division of labour are the indispensable adjuncts of machine production and they are taken advantage of in considerable measure hereafter. When the division of labour is practised in making articles, the problem arises as to what should be paid to all those who contributed towards the making of that article. Formerly a worker had all that he could get after selling an article. This is not, however, possible now because one man does not make the whole thing. Thus has sprung up the modern 'wages system' of employing labour under which the worker gets a contracted wage. In the handicraft stage the industry was regulated by custom or law and no competition of any kind was tolerated. But in this stage competition works with a vengeance. Industrialists now compete not for the market of the town but for the whole country and even of the world. On account of competition among producers the cost of production of an article and its price has materially gone down. Machines in this period are employed not only in manufacturing operations alone but also in agriculture. Modern, up-to-date, and scientific cultivation is impossible without the aid of machinery and power other than that of man. Though money has developed in the handicraft stage, the system of credit develops primarily in this stage. The institutions of credit such as banks, and the various instruments of credit such as 'hundies,' cheques, drafts, etc., have all their origin mostly in this period. Before this stage the problem of moving things from place to place was not at all important. In this stage, because, this problem became a practical one a great advance has taken place in the development of the means of communication and transport. Changes in the methods of industry and transport have also encouraged the growth of big and small cities.

These stages are, however, not sharply separated from each other. No definite date can be assigned when man gave up one method of obtaining goods and adopted another. The

change from one period to the other took place very slowly. Besides, all the features of the earlier stage do not necessarily die out when man enters in the new stage. In the present stage itself example can be found characterising all the different stages mentioned above. Thus a higher stage does not necessarily supplant the lower one in toto, very often it merely adds to it certain features which did not exist before.

CHAPTER IV

Consumption

MAN'S WANTS AND THEIR SATISFACTION

✓ What is Consumption?

Man is a bundle of infinite variety of wants ranging from the most elementary needs to the most sumptuary satisfactions that we see all around us or feel in our every-day life. Consumption deals with man's wants and their satisfaction by the use of wealth. The direct satisfaction of human wants by the enjoyment of the utilities in goods is called consumption. By satisfaction we understand the derivation of pleasure or the diminution of pain on the acquisition of that commodity for which a particular want makes its presence felt. In popular language the word 'consumption' means destruction; for instance, when we speak of fire as having consumed wood. But in Economics the consumption of wealth does not mean destruction of wealth; it denotes the use of wealth in such a manner as to give satisfaction to the user. Just as production means creation or increase of utility in the matter already in existence so consumption means nothing more than a dis-arrangement of matter which may result in diminution or extinction of utilities. As a matter of fact, matter is indestructible; the world loses not a whit by the act of consumption, but some of it is rearranged so that it is no longer capable of satisfying a particular want. We consume candles for light purposes but the matter is not lost for a chemical analysis would show that the candle has disappeared in the form of water and carbon-dioxide gas. Consumption is distinguished from destruction inasmuch as the latter makes wealth incapable of satisfying human wants. If a house is accidentally burnt down and re-

duced to ashes it is destroyed not consumed because the utility which it would have given to the owner for a much longer period of time comes to an abrupt end.

Those goods the utility of which is consumed in a single operation are termed as perishable goods such as coal which gives us warmth only once. But those goods which give repeated satisfaction to human wants for a considerable period of time and are "destroyed by those numerous gradual agents which we call collectively time," are known as durable goods. The clothes which wear out slowly and gradually, the cosy chair which yields its utility to the owner for a considerable time, the book which produces intellectual enjoyment, gold ornaments and diamonds which satisfy the wants of many successive generations of owners—these and many others are examples of durable goods. In both cases, utilities embodied in goods are consumed. The act of consumption applies to services also, e.g., if a lawyer engages a typist on Rs. 40 per month, he is consuming the services of the typist on Rs. 40 a month. Consumption, therefore, "connotes the yielding of satisfaction in the sense of meeting a human want, and the fact that satisfaction is yielded once and for all or over a long period of time is not of great importance. What is important is the fact that a desire has made itself felt and human effort has been directed to its satisfaction." A distinction is often made between 'productive consumption' and 'final consumption.' By productive consumption we mean the utilisation of an article not for direct consumption but for the creation of new and greater utilities. Thus, when coal instead of being used for heating a room, is burnt in the boilers of a factory to run the machines, it is consumed productively. Final consumption means simply that in which the article is used not for any further production but to bring about the direct satisfaction of wants. The utilisation of machines in a woollen factory is an example of productive consumption, whilst the use of shawls manufactured by those machines is an act of final consumption.

✓ Importance of Consumption

Ricardo and Mill—the two famous economists of the classical school—attached a great importance to the production of wealth and ignored the side of consumption considering it to be an individual's business which consequently needed very little discussion at their hands. They forgot that consumption is the motive force behind all human productive efforts and that satisfaction arising from the consumption of wealth is the sole aim of all economic activities. The importance of consumption is now recognised by all economists who regard 'wants and their satisfaction' as the foundation of economic life, and study consumer's point of view as searchingly as that of the producer's. Man produces things in order to consume and does not consume in order to produce. The beginning of all economic activities that we observe and experience in our daily life can be traced to the feelings of want or desire. Had there been no wants, the agriculturists would not have suffered the scorching heat of the sun or the bitter cold of the winter season, the labourers would have ceased tending the dangerous and whirling machinery, the traders would have abstained from their perilous journeys and hazardous speculations, the inventors would have reposed peaceably in their cosy abodes and not toiled week in and week out in their laboratories, and in fact there would have been no sign of economic activity. We see people going hither and thither performing their laborious tasks, because they have some wants which need to be satisfied. Satisfaction can be obtained through wealth and wealth requires effort hence human wants furnish the initial motive of all productive efforts.

Consumption is, in fact, both the beginning and end of all our economic activities.

Moreover, the importance of the consumption of wealth is emphasised by the consideration that as many and as dire calamities have overtaken people, because of their irrational habits of consumption as because of inefficient systems of production, exchange or distribution.' As such the whole problem of consumption has been looked upon as one of primary im-

portance—possibly more important than all these combined. The prosperity of a nation depends not only on the increase of National Income but also on the way in which it is expended and consumed. Nations which resort to productive consumption for exploiting their natural resources after eliminating every sort of waste and regulating their consumption in the most economic way have become prosperous and reached a high pitch of human welfare and happiness, whereas those which indulge in irrational or extravagant expenditure and do not know how to eliminate waste have lagged far behind in the march of progress. In view of the above facts State regulations have been framed out to check the consumption of obnoxious or pernicious commodities which tend to retard the progress of a nation. It is for this reason that people have begun discriminating between the more useful and less useful consumption. The social progress is also judged by the number, variety and quality of wants; as the society makes progress the wants of the people become more subtle and numerous.

Relation of Wants and Activities

In the study of Economics we are chiefly concerned with those activities of man which deal with wealth; all the activities undertaken in return for some remuneration are called economic activities. But want is the root of all economic activities; it is want that gives rise to production. No sooner a want is felt by man than he makes the necessary effort and satisfies his want. Consumption, therefore, is the goal of all economic activity, whereas production is the means to that end.

In the early stages of mankind the savage does not exert himself unless he is compelled to do so by his physiological needs. To satisfy his primary wants such as for food and thirst either he, like the brute animal hunts wild animals and birds or plucks wild fruits and goes hither and thither in the search of water or in the later stages when he is somewhat advanced, harvests crops by tilling the soil and digs wells for the supply of water. Again impelled by the necessity of getting

protection against the stormy rains, bitter cold, or sweltering heat he either provides himself with the bark of trees, digs underground a cell or builds a hut. Thus, in the earlier stages of economic development it is the want that gives rise to activities and all his efforts are directed to the satisfaction of his elementary wants.

But as man rises high in the scales of civilisation and culture his wants increase rapidly in number and variety. He is no longer satisfied with the coarse food he gets but he wants his meals to be more daintily and fastidiously served and he begins to take pride in using embellished metal dishes and vessels instead of the earthen vessels which at first sufficed him. In the progressive human society after satisfying his elementary wants, the desire for distinction and efficiency induces him to undertake new activities with a genuine pleasure. The desire for excellence or for the exercise of one's faculties has been described by Marshall as the chief cause of the multiplication of wants.

From the very beginning of the history of mankind wants and activities react upon one another. At first physiological wants such as hunger and thirst make their presence felt but later on these activities—undertaken for the satisfaction of primary wants—give rise to new wants. For instance, thirst is a physiological necessity. Water must be sought for by sinking wells and the drawing of water from the wells gives rise to new wants such as rope and bucket. Similarly, for the protection of our body we need clothes. This single want gives rise to innumerable new wants and new creative activities too difficult and lengthy to be dwelt upon such as for the cultivation of cotton a whole array of wooden and iron implements is required, for transporting it to the place of manufacture steamships and railways are needed, for converting it into fabrics huge factories of too intricate a nature are required and so on without any conceivable limit. Man's wants are immeasurable and expand without any limit. His circle of wants grows bigger and bigger like a circle in the stagnant waters caused by the throwing of a pebble till it becomes quite imperceptible.

By way of summing up, we may say that in the early stages of economic development it is wants that give rise to activities but in the later stages it is the activity that gives rise to new wants leading to economic progress.

Characteristics of Human Wants

The wants of human beings are unlimited in number and varied in their character depending to a great extent upon our habits, customs and ideals. They vary in a remarkable degree from country to country, from class to class, and from time to time within the same country or class they vary according to the differences in social and moral standards or economic and political institutions. Economic civilisation, it is emphasised, consists in the immense variety and infinite multiplication of human wants. In the midst of all these diversities of human wants, we can notice some uniform characteristics which are almost of universal applicability and upon which are based some of the important economic laws, which we shall study by and by.

(1) *Human wants are unlimited in number.* The savage indeed has not many more wants than the brute animal, but as he rises in the scale of civilisation his wants increase in number and variety. No sooner a man satisfies his one want than he experiences a desire for another. Human nature is such that new wants make themselves felt as existing wants are satisfied and constantly grow in quality and variety as well. As an example how wants grow in variety, Moreland's description may be quoted. He writes: "A hungry man can be satisfied for the time by a meal of the coarsest food perhaps a little millet and pulse; but when a man is sure of getting such food he begins to want better food and a greater variety,—he wants wheat-flour instead of millet, and he wants ghee, and vegetables, and rice, and perhaps fish, and he wants all sorts of spices and flavours. Then he wants the food better served, and he wants metal dishes and vessels instead of the earthen vessels which at first sufficed him. . . . The young pleader may be only too glad to be able to go to court on an *ekka* or in a tram-car,

but as he gets richer he wants first a trap and horse of his own, then a "cafrriage and pair, and then perhaps a motor-car."

• The increased knowledge consequent upon the wider diffusion of education, extension of trade and commerce due to the rapid means of communication and transport is a great incentive to the growth and diversification of wants. This characteristic of human wants is the basis of all modern civilization. There are indeed those who despise materialism and assert that true civilization consists not in amplification of wants but in their limitation and simplification; but considering the human nature as it is we may say that "man rapidly degenerates unless he has some hard work to do, some difficulties to overcome and some strenuous exertion is necessary for physical and moral health."

✓ (2) *Wants are limited in capacity.* There is an endless variety of wants but each separate want is satiable i.e., a certain amount of requisite wealth will satisfy it completely. A fixed quantity of food and water is needed to satisfy the hunger and slake the thirst. So with every other want; with each new possession of the particular commodity we derive less pleasure than the preceding one till we reach the point of satiety when we want no more. On this characteristic of human wants is based the Law of Diminishing Utility.

• (3) *Wants are Competitive.* Wants compete with one another; each want tries to be satisfied first. Sometimes as is evident from the facts of every-day life several wants present themselves before a man's mind for satisfaction so that ultimately one want gains prominence while the remaining ones are given up for future consideration. On this characteristic of human wants is based the Law of Substitution.

• (4) *Wants are Complementary*, i.e., some wants which go together need a simultaneous satisfaction. A motor-car without petrol, a carriage without horse, a single shoe are of no value for people demand such things in groups.

• (5) *Wants, acquired or artificial, tend to become a matter of habit.* Wants, in course of time, tend to become a part of our standard of living and we do not give them up easily when

once they are in our possession. This factor is of great importance in the determination of wages for the different grades of working classes. "There was a time when workmen wore neither shirts nor shoes, when they had neither coffee nor tobacco, when they ate neither meat nor white bread; but today these wants are so deep-rooted, and form so fundamental a part of our nature, that a workman, if he were deprived of them would probably perish." At the same time it should not be supposed that wants once acquired are perpetual. They do disappear but only when they are supplanted by others that are more strongly felt or whose satisfaction yields greater enjoyment.

(6) *The utility of present goods is always more than the utility of future goods.* People, as consumers, attach greater importance to the satisfaction of present wants than future ones for future satisfaction is always uncertain and problematical. The proverb 'a bird in hand is worth two in the bush' clearly exemplifies this characteristic of human wants. Obviously the utility of future goods is less than the utility of present goods owing to future contingencies and the inconveniences incurred by the saver. On this characteristic of human wants some economists have tried to justify interest-taking.

Some Apparent Exceptions

Moreland has pointed out the following exceptions regarding the characteristics of human wants. At the outset it must be said that these exceptional wants are outside the purview of an economist, because he deals mainly with the material wants of ordinary men in the ordinary business of life.

(1) There are cases where particular wants do not seem to be capable of satisfaction so that the more a man has of a particular thing, the more of it he wants. For example, the *love of display* manifested in costly and magnificent buildings, clothes, jewels, horses and carriages, cars and in other ways of living, increases with every fresh supply, never reaching the point of satisfaction. But as Moreland points out "this exception is apparent only, because the love of display is not exactly

a simple want such as the want of food or clothing; it is made up of a very large number of simple wants, and as each of these is satisfied new wants appear. The case is, therefore, an illustration of the principle that new wants are constantly arising, rather than an exception to the rule that wants can be satisfied completely."

(2) Another exception is the craze or love for power. The craze for some men for power over other people grows more and more with every increase of it. The economist ignores such wants as he is concerned with the wants of ordinary men.

(3) The appetite of a miser for accumulating material wealth, usually in the form of gold, or silver, or precious stones grows keener and keener with every addition of it. He wants wealth simply for the sake of wealth. He neither spends it for his own consumption, nor utilises it in some other way but he wants more, the more he gets. But we exclude from our study the wants of such misers.

(4) On the contrary there are men whose wants do not seem to increase in number and variety e.g., the religious ascetic. Every Indian student must be in the knowledge of the fact that in our own country many wealthy persons after forsaking their worldly riches and enjoyments devote their time in godly contemplation with a loin-cloth on their body and become dependent for their frugal food upon the charities. They are at all times thirsty for the attainment of *Nirvana*. This single want becomes so acute and pressing that almost all other wants become unimportant in comparison. But as this spiritual craving cannot be satisfied by wealth, so it is outside the economist's province.

(5) Instances are not wanting where a particular want is felt so strongly that the ordinary economic wants give way to it. There are men such as authors, painters or sculptors who being actuated by the desire of self-expression produce beautiful work (for the satisfaction of their inward craving) unmindful of the wealth or fame which their works will bring to them.

Different Kinds of Wants

Satisfaction of our wants is obtained through wealth which is got by our productive efforts. The wants of man are numerous and some of them will always have to go unsatisfied though each individual want is capable of being fully satisfied. The question naturally arises: can any rules be laid down as to the order in which people in general attempt to satisfy their wants? All wants, are not of equal intensity. Some wants are most urgent, others more attractive, while the rest may be characterised by durability.

Urgency. Our physiological wants, i.e., the wants of food, thirst, clothing and shelter are the most urgent wants which cannot stand postponement. 'Everything that a man hath will be given for his life.' After satisfying these wants he spends the rest of his income in meeting other less urgent wants.

Attractiveness. Some wants are more attractive than others. Individual tastes and habits, personal likes and dislikes, the nature of training one has received are great factors in determining the attractiveness of a want. "Some persons would pay more for a thing that was fashionable, for a colour they preferred, for a piece of furniture or china that was old and rare, in other words for the thing they really liked or admired even though to do so they would have to buy less of other things and to go without something the absence of which would involve more or less of real sacrifice."

Durability. Time is the distinguishing factor. In some forms of consumption the satisfaction is temporary, while in others it is more durable spreading over a longer period of time. For example, the satisfaction derived from the consumption of food or drink is only temporary for the want recurs again within a short period with equal intensity, while that derived from houses or furniture, from clothes or jewellery is continuous and the want once satisfied recurs only at more or less considerable intervals. Some people prefer to spend more on durable goods than attractive goods.

Adam Smith regarded expenditure on durable goods as being an important factor in increasing *national* as well as personal wealth.

Classification of Wants

From the above, it must have been clear that there are some wants which must be satisfied first by man before he can think of providing for others. It is from this point of view that human wants have been classified into three main classes:

(I) Necessaries, (II) Comforts and (III) Luxuries.

(I) Under necessities we generally include those wants the satisfaction of which is too essential for our sustenance and the deprivation of which produces in us a feeling of *pain*. But among the wants which must be satisfied, there are some which must be attended to *to avoid death* and others *to avoid loss of efficiency* and some *to maintain the social prestige* in the community in which one moves about. Necessaries; therefore, may again be subdivided into three distinct classes: (a) Necessaries for existence; (b) Necessaries for efficiency and (c) Conventional necessities.

(a) 'Necessaries for existence' or absolute necessities of life include those articles such as a minimum supply of food, drink, clothing etc., which are absolutely necessary for the continuance of human life. The goods necessary for existence vary in different countries according to the climatic conditions of those regions and are relative to time. "In cold countries the term includes, in addition to sufficient food and drink, a certain amount of clothing and also some sort of a house for shelter; in the plains of India the necessary amount of clothing and shelter is very small, and perhaps a blanket for the winter is all that a man absolutely requires, so that here the term necessities for existence means very little more than the small amount of grain and water that is sufficient to keep people alive."

(b) 'Necessaries for efficiency' include over and above the necessities for existence all those things which are necessary for keeping a worker *in full efficiency* at his work. Those

things which promote the physical, mental and technical qualities of a man leading to a complete and full enjoyment of life are included under 'necessaries for efficiency.' Marshall says, 'the income of any class in the ranks of industry is below its *necessary* level, when any increase in their income would in the course of time produce a more than proportionate increase in their efficiency.' According to Moreland, the term 'necessaries for efficiency' would include first considerably more food than is necessary for existence; secondly, a certain amount of clothing and furniture, and a healthy house for shelter; thirdly, opportunities for medical treatment, and for education for a man's children carried up to the stage which he himself has received.

(c) 'Conventional necessities' include those articles such as alcohol, tobacco, tea, fashionable wares of dress, etc., which do not in any way promote efficiency but which are yet necessary because their consumption has either become habitual or is required by the customs of the society. For a smoker, tobacco is a conventional necessity. If you snatch away from the smoker his puffs of smoke, he shall undoubtedly feel for a time lethargic and disinclined to do any work. Again, many middle-class gentlemen in our cities prefer to use cheap Japanese crepe-soled shoes instead of country-made shoes in spite of the great inconvenience felt by the users in hot and cold seasons when their feet either get scorched or benumbed respectively, but they are, in a conventional way, forced to do so for the wearing of the latter type of shoes is now beginning to be looked down as a sign of rusticity. For the attainment of conventional necessities many persons not only sacrifice their necessities for efficiency but are sometimes forced to desist from the consumption of absolute necessities of life as a result of the pressure wielded by the customs and traditions of the society. Man being a social creature must concede to these conventional necessities, and if he were deprived of these his efficiency would suffer. Hence, necessities for efficiency include necessities for existence as well as conventional necessities.

The expenditure on conventional necessities incurred in India is comparatively more because of deep-rooted customs found in the Indian Society. "Many people in order to avoid looking low in the public eye economise their earnings after stinting even their absolute necessities of life only to spend them in some marriage or funeral, religious or social ceremonies forced upon its members by the customs of the society."

(II) *Comforts*:—Those articles the consumption of which does not lead to an addition of efficiency in proportion to the cost incurred in their satisfaction but a deprivation of which tends to undermine the efficiency of a consumer, are termed as comforts. For example, a worker accustomed to enjoy his night in some cinema "shows" or theatrical entertainments if suddenly deprived of that pastime would take himself to be a bankrupt regarding that satisfaction and his efficiency would tend to deteriorate to that extent. Comforts imply a decent standard of living, and include better food, clothes and housing with some provision for recreation and amusement and for the satisfaction of intellectual needs. Their attainment and satisfaction for the progress of a country has been spoken of by some economists as too necessary. The use of 'Flex' footwear for indigenous shoes, the silk shirts for cotton, cigarettes for the *kukka*, are examples of comfortable consumptions.

(III) *Luxuries*:—Luxuries may be described as unnecessary. Luxuries include those things which only add to our enjoyments but do not increase our efficiency. Practically speaking, there is no real difference between comforts and luxuries excepting that the idea of luxuries conveys an idea of blame which is not conveyed by comforts, and the expenditure made on luxuries is taken to be as uneconomic or misdirected consumption. Luxuries signify a more elaborate way of living and include showy and costly things such as costly motor-cars, ornaments, table delicacies etc., together with the indulgence in expensive tastes in art, literature and travel. Gide defines luxury as the satisfaction of a superfluous want; Ely regards it as excessive consumption, that is to say, consumption of things

which are not necessities.

Having thus classified human wants into three main divisions viz., Necessaries, Comforts and Luxuries, we now come to the real crux of the problem. From the classification into the above categories, it should not be understood that it is based on anything like a fixed standard so that if a certain commodity or service were once assigned to any one of these categories, it would remain so for all persons at all times. For example, it is often supposed that wheat is a necessary thing, motor-car a comfort, and scents a luxury. But this is incorrect. The terms vary enormously in significance with different countries, and even in the same country with reference to different social classes, different positions in life, different individuals and different periods of time. What is luxury to one particular class of people may be necessary to another class of people. Our idea of necessities, comforts and luxuries is always relative to persons, time and place. To the busy doctor a motor-car may be necessary inasmuch as his efficiency may increase with the car as he is able to attend a large number of patients by having an economy in time, whilst to a wealthy man who keeps it simply for pleasure drives it may be pure luxury. Thus it should be noted that the classification does not apply to the articles of consumption but it is always in reference to the particular consumer.

With the change of time and, therefore, of circumstances, there may be a change in the classification of the articles of consumption. Some years ago the use of hat was supposed to be a luxury, now it is beginning to be felt as a comfort, and the time is not far when it might be regarded as a necessity. Similarly, a change in the place may bring about a change in the classification. A shirt is necessary for an English labourer in England; but it is taken to be a luxury for an Indian labourer. In some countries the women go bareheaded and the children barefooted. For them certainly hats, shoes and stockings would not be regarded as necessities but they would for the most part be so considered in England today.' Thus the classification

varies in relation to different places.

Then, again, the units of the same article are to be taken separately for the purpose of this classification. The whole quantity of the same article consumed by an individual need not, and, in most cases, would not come under the same category. Thus, one pair of shoes for an ordinary individual would be necessary, another pair comfort, and a third one luxury for the last one would hardly bring about any real change in his comfortable mode of life except signifying an indulgence in expensive tastes. Thus the *classification does not primarily refer to the articles of consumption, but to their units, and varies according to the individual consumer, the time, and the place.*

The question arises if this classification is so variable, can there be any common measure which can be applied in classifying human consumption in general? Economists have found out the common *principle of efficiency*, by means of which an article or the different units of an article can be assigned to each of the three divisions. If the test of productive efficiency be kept in view, we shall have no difficulty in classifying the different units of articles into necessities, comforts and luxuries. By it we can know to what extent the consumption of a particular unit of article generates, in the consumer, conditions of superior productive efficiency. Again, it can also be found out, whether or not, the deprivation of that article decreases his efficiency as a producer. Thus at a given time and place, if the consumption of a certain unit of an article increases the productive efficiency of the consumer, and the deprivation of which decreases his efficiency, then that unit of article would be classified under, 'necessaries.' Again, if its consumption shows a slight increase in his efficiency and its deprivation leads to some decrease in efficiency, then it would be placed in the category of 'comforts.' An article will be a 'luxury' if its consumption and deprivation do not increase or decrease his efficiency.

The foregoing classification of wants in order to bring out its salient features may be tabulated as follows:—

Items	The unit of consumption leads to	Deprivation of the unit leads to
Necessaries	Considerable increase in efficiency	Considerable decrease in efficiency
Comforts	A slight increase in efficiency	Some decrease in efficiency
Luxuries	No increase in efficiency	No decrease in efficiency whatsoever

Classification of wants

A word or two may also be added regarding the order in which people satisfy their wants. To regard that surplus income is spent on comforts and luxuries after expending on necessities is an erroneous idea. It is impossible to dogmatise in this connection. We can only assert that all people try to buy their necessities for existence first. But beyond that minimum there can be no generalisation. It is primarily a matter of personal habits, of individual tastes and desires. Some are thrifty, others are extravagant. Some will spend more on necessities, others on comforts and a few others will probably like to spend more on luxuries. Again, some will stint of the necessities for existence only to indulge in extravagant expenditure in other directions, e.g., an inveterate drunkard will prefer to forgo his food than to have abstained from his drink. "Order of consumption is not a matter of rule or regulation, it is a matter of personal habit, of individual tastes and desires." (Penson).

The Standard of Living

The standard of living means the amount of necessities, comforts and luxuries which one person or class is habituated to

consume and for the procurement of those articles which have come to be regarded as the normal requirements of everyday life he possesses the means or the willingness to undergo a reasonable sacrifice. A low standard of living implies the satisfaction of very few wants besides the necessities of life. On the contrary, a high standard of living signifies a greater expenditure on comforts and luxuries, over and above the necessities of life. But readers should carefully note that the most expensive standard is not necessarily the best standard of living and the satisfaction of a large and varied number of wants irrespective of the effects which they produce does not constitute the rational standard. We should follow Dr. Marshall who lays down: "Let us take the term the standard of life to mean the standard of activities and wants. Thus an increase in the standard of life implies an increase of intelligence, energy and self-respect; leading to more care and judgment in expenditure and an avoidance of food and drink that gratify the appetite, but affect no strength, and of ways of living that are unwholesome physically and morally." Economists advocate that standard of living which results in the greatest benefit to society and is conducive to the full development of economic, moral and physical side of the persons who have adopted it.

Although there is some vagueness in the connotation of the term 'standard of living,' yet, it is certain that different people have different standards of life. It is purely a personal affair and every individual clearly understands the standard he adopts. Everyone eagerly looks for opportunities to raise his standard of living by having a command over those articles and services which were previously beyond his reach, and fears for any lowering of the standard for it not only deprives him of the articles and services he was accustomed to enjoy previously but also brings about a 'descent in the social scale with possibly some loss of personal dignity and self respect.' The standard of life is not merely important from the individual point of view, it has a considerable bearing on the industrial efficiency,

on the social and political organisation, and on the progress and development of the people as a whole.

Standard of Living in India

In India, owing to the general poverty of the people and the low earnings of the average individual, the standard of living of the vast majority of the Indian masses is extremely low. Three-fourths of the population consists of agriculturists and a comparative study of the agricultural conditions in this country and in foreign countries will reveal to us the wretched state of the average Indian agriculturist as compared to that of a peasant of an advanced country. He has to live under such adverse circumstances as cannot be dreamt of by an European peasant. The latter never feels shortage of food-supply but always sighs for the lack of furniture, conveyance and other comforts and decencies of human existence. But with our Indian cultivators the case is quite different. Many of them do not get even full meal once a day and what they get is of the coarsest kind. The food which they take is inadequate in quantity and deficient in nourishment. Many people annually, owing to the scarcity of the necessary clothing requirements, fall a helpless victim to the rigours of inclement weathers. A large number of persons live in ill-ventilated and insanitary houses built of mud walls with thatched roofs, and which are very often shared by cattle too. In short, a majority of the people are hardly supplied with the barest necessities which are most essential for the preservation and continuance of human life. Of course, there are a few persons who can afford to indulge in comforts and luxuries in matters connected with food, lodging, recreations and dress but they represent a microscopic minority in comparison to the total Indian population. Dr. P. Banerjee in his 'Study of Indian Economics' has very systematically described the ill-effects of an inadequate consumption upon the productive capacity of the people. He remarks: "An insufficient supply of necessities for existence may just enable a person to keep body and soul together but cannot but be detrimental

to his physical and moral welfare. The effect of inadequate consumption on production is immense. Ill-fed, ill-clad, ill-lodged, the mass of the people of India lead a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people who fall easy victims to the attacks of various kinds of disease. Having no reserve to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause such as a drought or a failure of the crops. The children of the weak and unhealthy parents become weaklings, and, being themselves ill-fed and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation; and with the progress of physical degeneration, their moral stamina also tends to grow less and less strong. Consequently, the efficiency of labour as a factor in production has a progressively rapid tendency to diminish."

It is admitted on all hands that the production in India can be greatly increased by increasing the consumption of the ill-fed people. Increased consumption means only that consumption of wealth which gives the greatest benefit and most rational enjoyment to the individuals and society as a whole. Increased consumption by the lower and middle classes of population of cheap imported articles of luxury and convenience is not an indication of progress and prosperity; as is erroneously supposed by some, if it is done at the expense of necessities for existence. Luxury is economically unproductive and stinting of necessities is always harmful. If the consumption of alcohol, opium, cigarettes, umbrellas and trinkets is made at the expense of milk, ghee, hukka and blankets, it will not lead to any economic progress of the country. People must have necessities for efficiency before they are economically qualified to indulge in these less urgent and superfluous wants.

CHAPTER V.

UTILITY

The Definition of Utility

The term utility, in Economics, is used in a different sense than that ordinarily understood by a layman. Utility may be defined as the quality or power of a commodity to satisfy some human want. When we use a certain commodity and derive satisfaction in the course of its consumption, then that commodity is said to possess utility. Anything that possesses utility is classed under the category of goods in our economic science. We want the consumption or acquisition of bread and butter, milk and water, clothings and furniture, wine and opium, conveyances and houses, articles of decoration, display and recreation because they seem to possess utility and the power of satisfying our wants. If a thing is capable of satisfying a desire, it possesses utility irrespective of the effects its consumption brings upon the health and efficiency of the consumer. Although alcoholic liquors and opium are positively detrimental as the constancy of their use brings deteriorating effects upon the health of the drunkard and the opium-eater, yet in the strict economic sense of the term they possess utility so long as they are demanded and consumed by the respective consumer. Hence the term utility is not necessarily synonymous with 'usefulness' in a moral or social sense. (Seager has aptly emphasised the point in question thus: "Anything that satisfies a want and has utility is a good, whether it be the whisky of the trader or the hymn book of the missionary.")

Here we must not lose sight of the subjective aspect of utility. It is a psychological evaluation of the want-satisfying capacity of a particular thing. Utility is not an inherent quality

of a thing; it is a subjective phenomenon resting in human want and relative to the intensity of the want. Utility arises only with want and vanishes with the disappearance of the want. It exists only in relation to human desire and can have no independent and separate existence. The utility of a commodity varies with different persons and at different times and places with the same consumer under altered circumstances.

Utility varies directly with the intensity of a want. Utility or satisfaction secured from the consumption of a commodity is incapable of any physical measurement because of its variability from individual to individual, from place to place and from time to time with the same individual. But we know that the more intensely a thing is desired by a man greater would be his sacrifices for its acquisition. *Hence the utility of a thing is measured indirectly by the sacrifice one makes, or the amount of money one is willing to pay in order to get possession of it.*

The Law of Diminishing Utility

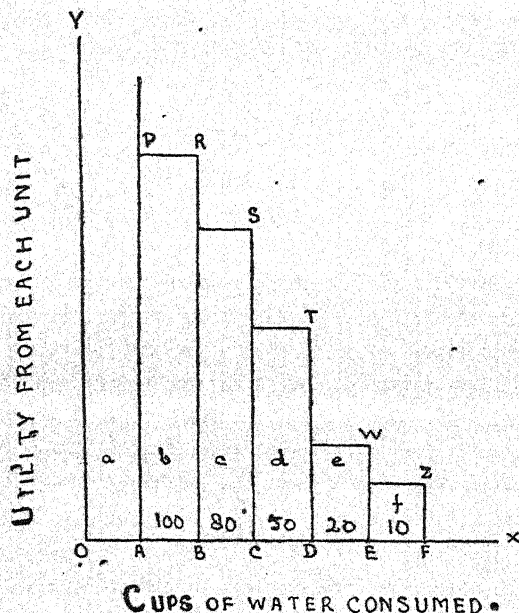
There is an endless variety of human wants; they tend to increase with the progress of civilisation and growth of inventions. But amidst the confusing varieties of wants experienced by us if we single out any particular want we find that it is capable of being completely satisfied for the time being. However intense desire may be for a particular commodity, its desirability diminishes as its units increase with the consumer at any given time. I may have a very pressing desire to possess a blanket for purposes of protection from cold but the moment I provide myself with one blanket I may think that I am satisfied for the moment and want no more. I may be suffering from a tormenting hunger, but after I have taken two or three loaves of bread my eagerness for the successive units will decrease and the utility derived thereof will tend to decline. You may consider the desire for the first pair of shoes as intensely high; you may welcome the second pair of shoes though it will satisfy a less intense want; the third pair of shoes will be less eagerly sought until you would no longer feel the need of any addi-

tional pair of shoes. We all know about the apparently insatiable desire of King Midas for gold and when he eventually got enormous quantities of it he began to hate the sight of it—an object of desire and admiration became one of dissatisfaction and disgust. These illustrations serve to show that man's wants though unlimited in number are yet limited in capacity. This phenomenon is called by economists the Law of Diminishing Utility or Satiabile Wants. It may be stated briefly as follows:

The Law of Diminishing Utility states that the intensity of our want for additional units of a commodity diminishes as we consume or acquire successive units of it. That is to say, at any given time as the successive doses of the same commodity or service are consumed, the utility obtained from the successive doses becomes less and less, and if consumption is not stopped it may fall to zero finally passing into dissatisfaction or disutility. This tendency of diminishing utility, barring a few apparent cases which we shall discuss in the following pages, is of universal application in respect of our wants and their satisfaction. Take the case of a thirsty man with whom the utility of the first cup of water is almost immeasurable as he is prepared to pay any and everything for its acquisition. Let us say that the utility of the first cup of water is infinite for it involves a question of life and death to him. After having drunk the first cup of water, the intensity of his thirst falls and with it falls the intensity of utility also. A second cup of water is yet highly agreeable though the utility derived from the second is much less than the utility of the previous one. A third cup is still agreeable as his thirst is not altogether quenched and he will probably derive less utility from the third cup than the second one. From the fourth cup he may derive a very little satisfaction notwithstanding his use, and a limit is conceivable when he will no more feel the want of water at that particular moment and any additional supply of it instead of giving any pleasure as the previous cups produced in him will be positively a source of nuisance or discomfort. Thus, we see that with every increase in the stock of a commodity there goes a corres-

ponding fall in satisfaction and utility that a consumer derives from the additional units of the same commodity at any particular period of time.

The relations between the successive cups of water and corresponding degrees of utility received by the consumer may be graphically represented thus:—



The Law of Diminishing Utility

Along the axis OX we measured the units or cups of water consumed and along OY we measure the degrees of utility received from the successive units. The first unit or cup of water represented by OA (or, *a*) gives an incalculable amount of pleasure or satisfaction and the rectangle is left open because the utility derived is infinite and not susceptible of actual measurement. The second unit, let us assume, gives 100 degrees of utility represented by the rectangle ABRP: the third unit gives 80 degrees of utility represented by the rectangle *c* and so forth as marked in the diagram. The diagram illustrates

clearly the tendency that as identical units or cups of water are consumed at any given time, the utility of each successive unit becomes less and less than that of the previous unit till it reaches the margin of satisfaction. The rectangle f represents the marginal satisfaction when the utility of the last unit consumed is balanced by the sacrifice undergone or price paid for its acquisition.

The tendency to diminishing utility is manifest in all forms of consumption, and depends upon man's physical and psychological nature within a given period of time. As the tendency operates with water, so with every familiar article of daily use; as with a thirsty man so with every consumer. Howsoever hungry a man may be, every additional loaf of bread that he consumes gives diminishing utility to the consumer. Prof. Marshall has defined this tendency thus: "The additional benefit which a person derives from a given increase of his stock of anything diminishes with the growth of the stock that he already has." In simple language the law may be formulated as follows: Each additional unit of a commodity consumed or acquired at a given time affords, *other things being equal*, diminishing utility to a person than the preceding unit.

Meaning of "Other Things being Equal"

While enunciating the Law of Diminishing Utility we must not forget to notice the significance of the phrase 'other things being equal,' as it involves certain assumptions without which the law will not or partially hold good. It signifies that the utility from each successive unit of a commodity diminishes only when other conditions remain static at any given period of consumption. In 'other things' we usually include the following qualifications.

(1) Each successive unit of the commodity consumed or acquired must be identical. For example, if the thirsty man after having drunk two cups of water, when the additional utility from the last unit is declining, resorts to a glass of delicious lemonade with ice, his utility might show a positive

increase. Thus the law is applicable to a particular commodity with reference to a particular consumer at a particular time and place.

(2) The law is applicable only when the attitude or temperament of the consumer remains the same during a certain stated period of consumption. For example, a man feels diminishing pleasure with every additional loaf of bread he takes. If after five or six loaves of bread when the added utility from the last unit is almost zero, he takes liquor, he finds in that altered state the satisfaction from the additional loaves of bread increased, though for a temporary period only. Hence the attitude or temperament, in other words, the entire outlook of the consumer must not be affected by other factors.

(3) If long periods of consumptions are taken into account, the consumer's income, habits, customs and fashions must remain unaltered. If the income of a person gets increased, then he may consume or acquire more of the commodity at the same or higher price although he may be having a large stock of that commodity with him. If tastes or fashions undergo a change, it is probable that the utility of successive units of a commodity may not diminish during an altogether different set of circumstances.

(4) The general level of prices must remain the same. If the price of a particular commodity falls, then the consumer may buy more of that article at the reduced price in spite of a large stock that he already has. But the tendency must operate ultimately for he cannot increase his stock indefinitely.

Allowing for these assumptions and qualifications, the Law of Diminishing Utility is almost of universal application. "The tendency (to diminishing utility) shows itself," remarks Prof. Taussig, "so widely and with so few exceptions that there is no serious inaccuracy in speaking of it as universal."

Exceptions to the Law of Diminishing Utility

By exceptions to the law we understand that in some cases each successive unit of a commodity, if added to the stock of a

commodity a man possesses, may intensify his desire and afford increasing satisfaction upto a certain point. It should not, however, be forgotten that exceptions dealt below are only apparent and not real, as the Law of Diminishing Utility would operate ultimately in every circumstance.

If our initial units of a commodity are such as to be of no worth in our consumption, increasing utility from the acquisition of successive units of the same commodity is conceivable upto a certain point. As Silverman points out: 'Thus, if 3 yds. of cloth are necessary for a garment, a cut length of 2 yds. would have less than two-thirds of the utility of 3 yds. An extra yard would thus afford increasing utility. Yet even here, it may be properly contented, diminishing utility really obtains, since 3 yds., and not 1 yd., would give a lower satisfaction than the first length.' Similarly, if a few drops of water were to be offered to a thirsty man, it would intensify rather than diminish his thirst creating a keener longing for the acquisition of additional units of water. The utility will show a diminution only when a certain required quantity has been obtained by the thirsty man for quenching his thirst.

A second instance of exception to the general Law of Diminishing Utility is afforded by the consumption of stimulants under the effect of which the entire attitude and temperament undergoes a complete change and the consumer begins to think that the second or third unit of liquor will bring greater pleasure and satisfaction than the previous unit consumed. Or, as Taussig remarks, to speak of higher things, the second or third reading of noble verse or the hearing of beautiful music, often gives greater pleasure than the first. But in such instances too the point of diminishing utility must come sooner or later.

Another exception to the law is to be found in the peculiar characteristics of a commodity consumed or utilised. Taking the case of a telephone, it requires no greater attempt on our part to prove that the larger the number of telephonic connections, the greater is the utility derived by the user on account of the increased facilities of communication afforded by the extended

telephonic service. But beyond a certain limit the workability of service shall suffer owing to the delay and inconvenience caused in transmitting communications.

Another exception to the law is furnished by curious and rare things. The collectors of rare articles like ancient stamps and coins, auk's eggs and other curios and specimens of antiquity usually derive an increasing pleasure with every addition of such articles in their stock. But in such cases too a limit must be reached when any further addition to the stock will have diminishing utility.

Lastly, the love of display, the lust for power and the miser's thirst for money may also be mentioned as other apparent exceptions to the general Law of Diminishing Utility. In all these exceptional circumstances the tendency to diminishing utility, however, must prevail ultimately. Hence, these exceptions do not contradict the universal applicability of the Law of Diminishing Utility.

✓ Marginal Utility ✓

The conception of 'marginal utility' closely follows the Law of Diminishing Utility. According to the Law of Diminishing Utility the utility of each additional unit of a commodity diminishes, and the utility which the consumer derives from the unit which is at the end of successive consumption of that commodity is spoken as the *marginal* or *final* utility. Marginal utility may be positive, zero, or negative. It is positive when a consumer has to cease his act of consumption, for one reason or the other, before reaching the point of full satisfaction. Marginal utility is zero when the consumer reaches the margin of full satisfaction and wants no more the consumption of that commodity at that particular moment. It is generally zero in the case of free goods which can be had in plenty without any payment of any sort. It is negative when the consumer is forced upon, willingly or unwillingly, to continue his consumption as to be distinctly detrimental to him.

In order to illustrate the meaning and conception of mar-

ginal utility more precisely and completely let us take the case of a hungry man who has a number of loaves of bread to appease his hunger. Let us assume that marginal utility from each successive unit is as follows:—

Units of successive loaves of bread	Marginal Utility	Total Utility
1	50	50
2	40	90
3	25	115
4	20	135
5	15	150
6	5	155
7	0	155
8	-5	150
9	-15	135
10	-30	105

It is clear from the table given above that upto the consumption of six loaves of bread the utility is positive; the utility of the seventh is zero and after that it becomes negative. Ordinarily, our utility does not reach the stage of zero utility, as we have to make a money payment for every unit consumed or acquired by us. The same idea may be represented by the following diagram.

Let OX represent the successive loaves of bread and OY the corresponding degrees of utility derived. If the hungry man of our illustration ceases his consumption after taking the sixth loaf of bread then at that particular time the sixth unit will form the marginal loaf and the utility derived by its consumption will be known as its marginal utility. The marginal utility of the sixth loaf of bread is 5 as represented in the diagram. If he had stopped after consuming the seventh loaf of bread its marginal utility would be 0. Similarly, -5 will be the marginal utility of the eighth loaf of bread if he stretched

his consumption to that limit. The 'additional utility' refers to the utility derived by the added satisfaction of any single unit in the course of consumption, and it is always spoken with reference to one unit consumed at any stage of consumption. Marginal utility is the amount of utility which is derived from

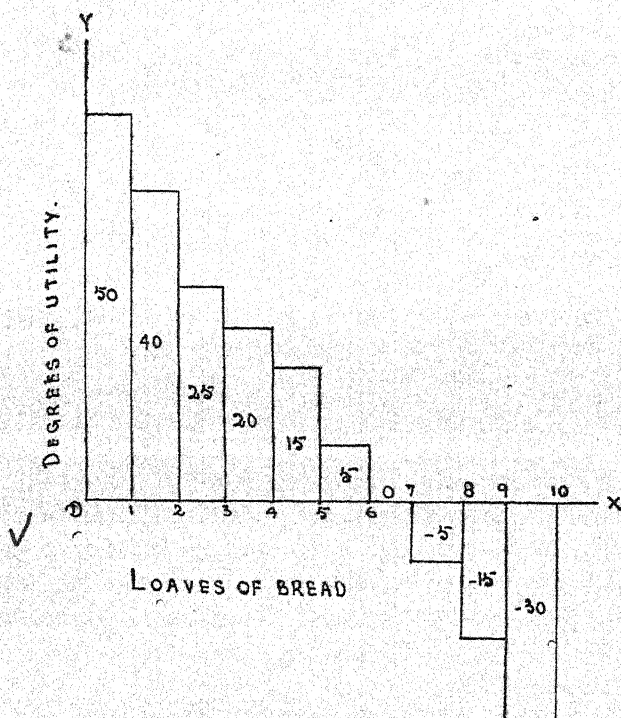


Diagram illustrating diminishing utility, marginal utility and total utility

the last unit of supply of a commodity in a continuous consumption at a given time.

Total Utility

Although the marginal utility of a commodity, as examined above, to a consumer diminishes with every increase in the amount of its stock, yet the 'total utility' increases for a time.

'Total utility' refers to the sum total of all the additional utilities derived by the consumption of the whole stock of a commodity at a given period of time. The increase in total utility, however, takes place at a diminishing rate, that is to say, the increase is proportionally less than the increase in stock. To be more precise, the total utility increases upto the margin of full satisfaction, that is, the point of satiety after which it begins to decrease as any additional unit will produce disutility or negative utility. Hence it has been truly observed that when the total utility of a commodity has reached its maximum, marginal utility is zero. Reverting to the previous diagram, when seven loaves of bread are consumed the total utility is 155 and the marginal utility is zero. At this limit, the total utility is at its maximum, and the marginal utility sinks to zero. If he takes eight loaves the total utility is reduced to 150 because the amount of disutility or dissatisfaction resulting from the eighth loaf of bread must be subtracted from the total utility. Hence, the total utility increases upto the point of satiety and it is at its maximum when the marginal utility is zero.

Consumer's Surplus

According to the Law of Diminishing Utility the utility diminishes with every addition in the stock of a commodity that a person already has while the marginal utility of the last unit of a commodity consumed at any given time just equals the sacrifice or price paid for its acquisition. Obviously, the utility derived from the earlier units of a commodity is very high and the price that a person would be prepared to pay for them would be correspondingly high. But in spite of varying amounts of satisfaction accruing from the successive units, the price paid for the different units is governed by the marginal unit purchased by a consumer. The price of all different units of the same commodity under competitive market conditions is the same at a particular time and place. Therefore, on all previous units consumed above the margin the consumer derives a surplus or an excess of satisfaction which is commonly measured

by the difference between the price that one would be willing to pay and that which is actually paid. This is called in economic terminology as the 'consumer's surplus.' Prof. Marshall has defined it thus: "The excess of the price which he would be willing to pay rather than go without the thing, over that which he actually does pay, is the economic measure of this surplus satisfaction."

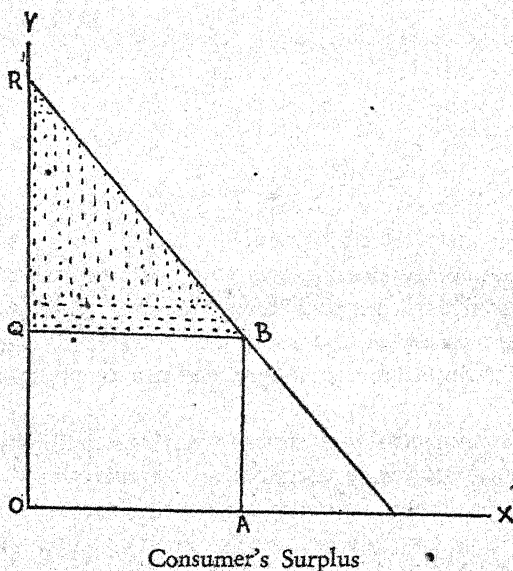
Again, reverting to the example of the hungry man and keeping in view the gradually diminishing amount of satisfaction with each successive increase of his stock, let us assume that the loaves of bread are offered to him in succession and that each one is purchased at the following price *without the knowledge of more to come*.

For the first loaf the consumer is willing to pay	10 annas
" " second	8 annas
" " third	6 annas
" " fourth	4 annas
" " fifth	3 annas
" " sixth	1 anna
Total	32 annas (Rs. 2)

As the amount he is willing to pay for each successive loaf of bread measures the marginal utility of that loaf of bread to the consumer, it may be said that the total utility of six loaves of bread to him is the sum total of the amounts paid for each additional unit, viz., 32 annas or Rs. 2. But if at that particular time the market price were one anna per loaf of bread, it is certain that he would be charged one anna for every loaf of bread in spite of his differing satisfaction from the successive units, and that he would be required to pay six annas for all the loaves of bread consumed. Thus owing to market conditions he obtains by spending six annas that satisfaction for which he would have been prepared to pay at least two rupees; and so we can say that the sum of one rupee, ten annas measures the surplus of

satisfaction which he enjoys in his purchases as illustrated in our example. Consumer's surplus, therefore, is, according to Prof. Taussig, "Difference between the sum which measures total utility and that which measures total exchange value."

The conception of consumer's surplus may be represented by the following diagram.



Along OX are measured the units of loaves of bread consumed, and along OY the price paid for each respective unit. In the purchase of OA number of loaves of bread at the price OQ or AB , the total cost involved is measured by the rectangle $OABQ$. Whereas in order to purchase OA number of loaves of bread he would have been prepared to pay $ORBA$. But as it is, all the units are purchased at OQ price. The total utility obtained is represented by $ORBA$, the price paid is $OQBA$, and therefore, RQB constitutes the consumer's surplus.

This conception is of great importance in our economic studies. It draws our attention to the familiar fact that the price of a commodity is not a true measurement of the satisfac-

tion derived from it. The price for a commodity may be very small but the satisfaction may be enormous—that is, there may be a large consumer's surplus. It enables us to determine the economic position of the different classes in a community and the stage of civilisation achieved by its people. Other things being equal, the higher the stage of civilisation reached, the greater is the consumer's surplus enjoyed by the people. Prof. Nicholson has criticised the conception of consumer's surplus as purely arbitrary and illusory. He remarks: "Of what use is it to say that the utility of an income of £100 a year is worth £1000 a year?" Marshall in reply to his criticism writes that there is no avail in saying that. "But there might be use, when comparing life in Central Africa with life in England, in saying that, though the things which money will buy in Central Africa may on the average be as cheap there as here, yet there are so many things which cannot be bought there at all, that a person with a thousand a year there is not so well off as a person with three or four hundred a year here. If a man pays 1d. toll on a bridge, which saves him an additional drive that would cost a shilling, we do not say that the penny is worth a shilling, but that the penny together with the advantage offered to him by the bridge (the part it plays in his conjuncture) is worth a shilling for that day. Were the bridge swept away on a day on which he needed it, he would be in at least as bad a position as if he had been deprived of eleven pence." Although the measurement of total utility and consumer's surplus is more or less hypothetical, yet the consumer's surplus obtained from the existence of cheap postal, telephonic and transport services, cheap newspapers and other articles of familiar use is a real and not an imaginary conception.

The Law of Equi-Marginal Utility or the Law of Substitution

The law has been stated by Prof. Marshall thus: "If a person has a thing which he can put to several uses he will distribute it between these uses in such a way that it has the

same marginal utility in all. For if it had a greater marginal utility in one use than another, he would gain by taking away some of it from the second use and applying it to the first."

It is a matter of common observation and experience that every person tends to secure the maximum of satisfaction with the minimum of sacrifice or expense. If a person has ten rupees for his expenditure he will try to spend them in the satisfaction of his competing wants in such a way that he obtains the maximum of utility out of the whole; and in order to secure that end from his given expenditure he will so distribute his expenses on various items that the marginal utility derived from the last unit of each purchase is approximately the same. Similarly, when a man has a stock of, say, 20 seers of cotton he will so tend to adjust his total consumption for his clothing requirements that the last unit of cotton expended on one item bears practically the same amount of utility as that obtained on other items. If he calculates that the marginal utility of the last unit of cotton spent on shirts is less than the additional utility which he could have obtained by adding the same unit on *pyjama*, he would necessarily like to make the change and substitute the latter for the former thereby increasing his total satisfaction from the total stock possessed by him. It has already been noticed that a consumer usually stops purchasing or consuming an article at the point where the marginal utility of the additional unit is just balanced by the money sacrifice undergone to secure it. Consciously or unconsciously, everyone of us is continually comparing the utility of one commodity with that of another and diverting his expenditure from a less important commodity to a more important one whose satisfaction is expected to be greater. When a consumer after a careful and judicious comparison of utilities tends to regulate his expenses on different articles of consumption in such a way as to yield equal marginal utility along each line of expenditure he is said to conform to the law of equi-marginal utility. The law states that the total utility derived from one's expenditures is at its maximum, only if the marginal utility along each line of expen-

diture is equal or approximately the same.

The law of equi-marginal utility is usually explained with reference to the use of money income which can be put to a number of uses, and it may be illustrated by the following hypothetical illustration. Let us assume that at a given time a labourer has fourteen annas to purchase four commodities, flour, rice, ghee and sugar. Let us further assume that he spends his sum in one anna unit successively on various articles and the degrees of utility which he obtains from successive units of each of these articles are given here on a diminishing scale and are represented by a number in each column. It may be added that according to market prices one anna gets each time in exchange eight chataks of flour, six chataks of rice, four chataks of sugar, and one chatak of ghee. It will be clear with the aid of the following table of figures how it is possible for a sensible consumer to obtain a maximum of satisfaction if the marginal utilities at the end of each purchase are made the same.

Table explaining the law of equi-marginal utility

Names of commodities			Degrees of utility from successive units						
Flour	..	..	30	24	20	17	(15)	7	
Rice	..	..	25	19	18	(15)	7	6	
Sugar	..	..	22	(15)	9	6	4	2	
Ghee	..	..	23	16	(15)	12	8	5	

As each number in the above table represents the degrees of utility enjoyed by the outlay of one anna unit, it is obvious that the labourer would first of all choose that unit of commodity which promises to afford the greatest amount of satisfaction and the other units in order of their utilities. Always keeping this object in view he will spend his fourteen annas in

purchasing five units of flour, four units of rice, two units of sugar and three units of ghee to get the maximum amount of satisfaction, and it will be seen that in his attempt to obtain the maximum amount of utility out of his limited sum, he has spent it in such a way that the utility derived from the last unit along each line of expenditure tends to be equal. The total utility which he derives out of the given expenditure amounts to regarding flour $(30+24+20+17+15)$ + rice $(25+19+18+15)$ + sugar $(22+15)$ + ghee $(23+16+15)$, or 274 degrees of utility. Supposing if he changes the order and proportion of his expenditure then his total satisfaction will decrease considerably. Hence the law may be stated thus: In order that the total utility may be maximum the consumer should distribute his given income in such a way that the marginal utility on each line of expenditure is made approximately equal.

The law of equi-marginal utility also applies to the distribution of income on future needs. Along with the present uses of money a thoughtful consumer has equally to look to his future uses of money and distribute his income on different uses present and future in such a way that they will have in each the same marginal utility. If a man receives an income of Rs.100 per month he will in order to get maximum total satisfaction out of his income will so distribute it between present and future needs that the marginal utility obtained from the last unit of money spent on the satisfaction of present wants is just equal to the marginal utility to be gained by saving the last unit of money to be spent in the satisfaction of his future needs.

Although the labourer in our hypothetical illustration has derived from his given expenditure maximum possible satisfaction by making marginal utilities along each line of expenditure equal, yet in practical life we are seldom able to make them so in spite of our constant effort and natural predilection to attain that end. The frequent fluctuation in prices is a great handicap in the attainment of that end as it always upsets the pre-conceived calculations. Supposing if the price of flour rises while the prices of other commodities remain the same then the

satisfaction derived from the expenditure of one anna unit will be less than that obtained previously, and it becomes necessary to spend something more than one anna to bring the marginal utility of flour to its previous level. This will necessitate a curtailment of expenditure on other commodities which in turn will upset completely the proportion of the distribution of expenditure on different commodities decided previous to the occurrence of the fluctuation in price. Again, many persons due to a variety of reasons either fail or do not care to weigh and balance judiciously and correctly the utility of their marginal expenditure on each commodity as a result of which they seldom get the maximum satisfaction out of their given income and repent for the mistake.

The law has a very wide application in Economics; it operates in consumption and has an important bearing upon distribution. The producer in order to secure maximum gain out of his money is ever anxious to substitute more profitable for less profitable forms of investments and to employ the factors of production in such proportions that the marginal returns from each are equal.

CHAPTER VI

DEMAND AND SUPPLY

The Meaning of Demand ✓

In Economics the term 'demand' is used in a very special and restricted sense. Demand is not the same thing as desire. By demand economists mean an "effective desire," that is, a desire which is backed by some means to satisfy it. Such a desire comes only from those persons who have got the *ability* and *willingness* to pay for that quantity of a commodity which they want to possess. A cultivator may have a keen desire or want to have a motor-car but if he has got no means and willingness to pay for its price, the mere desire, however strong it may be, will have no effect on the market conditions and hence it will constitute no demand in the economic sense. Demand denotes a desire backed by money or other means to purchase the quantity desired by a person at a particular time. Thus demand implies three conditions: (i) Desire for commodity, (ii) means to purchase it, and (iii) willingness to offer the means of purchase to satisfy the desire.

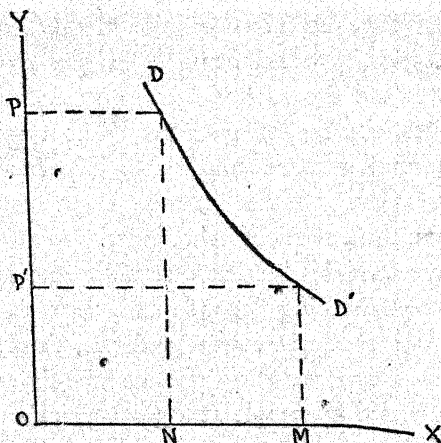
But as demand is closely related to price, and as our demand to purchase a certain thing depends to a very great extent on the price we have to pay in exchange for it, therefore, demand has come to mean the quantity of a commodity which is demanded or purchased by people at a given price and at a particular period of time.

The quantity of a commodity demanded by a person usually differs with different prices. We can have no idea of demand unless the price is mentioned. Demand generally varies with the price. Other things being equal, if the price is high

the quantity demanded will be less, while if the price is low the demand for the commodity will rise. |

✓ The Law of Demand

The law of demand is obviously based upon the law of diminishing utility as the utility of each successive unit diminishes, the price which a person is willing to pay for the acquisition of the successive units goes on decreasing, and, therefore, the law of demand declares that the quantity demanded increases with a fall and decreases with a rise in the price of a commodity at any given time. Marshall has defined the law thus: "The greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers; or, in other words, *the amount demanded increases with a fall in price, and diminishes with a rise in price.*" The law of demand thus establishes a definite relation between the price and the quantity demanded, and it may be represented by the following diagram.



✓ The Law of Demand

Measuring along OX the quantity demanded and along OY the prices it is shown that as the price falls from PO to P'O the quantity demanded increases from ON to OM, that is, the

demand increases with a fall in price, and decreases with a rise in price, e.g., when prices rise from OP' to OP , the quantity decreases from OM to ON .

It must, however, be pointed out that there does not exist any uniform relation between the quantity demanded and the price. If the price of a commodity is doubled, it is not necessary that the quantity demanded would be reduced to one-half. The extent of the fall in demand as a result of a rise in price depends on many factors especially on the nature of the commodity in question. The law only indicates the tendency, that a rise in price diminishes demand, and a fall in price increases demand, and it does not seek to establish, nor possibly it can, any quantitative relationship between demand and price. Moreover, the demand is influenced besides changes in price by such extraneous factors as changes in fashions, customs, tastes, the wealth of the community, the purchasing power of money and the influence of substitutes which may jointly or separately counteract the quantitative relationship arrived at any time between demand and price. So the Law of Demand declares merely that demand varies with price without indicating by how much it is likely to be affected in the case of any particular commodity.

The Demand Schedule

A demand schedule is composed of a list of the different amounts of a commodity which will be purchased at a particular time and place. It is always used with reference to a single commodity at a given period of time. It may be an *individual demand schedule* or a *market demand schedule*, the former indicating the quantities of a commodity which will be purchased by an individual at different prices, and the latter representing the sum total of all the demands for a given commodity in a particular market at a particular period of time.

Ordinarily, people do not stop to think about the varying amounts of a commodity that they would purchase at each possible price, but whenever a marked fluctuation takes place

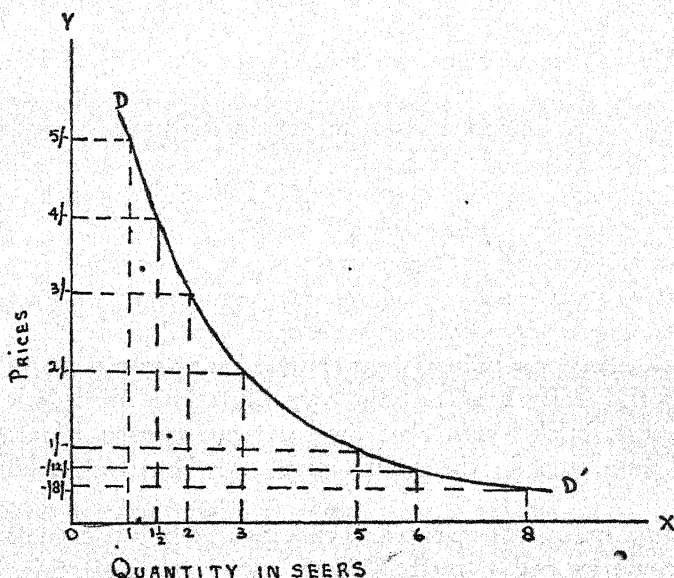
in the price of a commodity, they have to consider seriously the amount of that commodity to be purchased at a price widely different from that to which they were accustomed previous to this change. To cite an example from the practical conditions of life, it may be pointed out that as a result of the excise duty levied on matches many people, particularly the poor, have deliberately reduced through every possible economy the consumption of matches to a marked degree. It is quite possible that the price of a commodity might rise so high that for a particular consumer it may become quite prohibitive resulting in a complete cessation of his consumption, or again, the price might fall so low at any other season that the same consumer will purchase a sufficient quantity of it without any difficulty. Between these two extreme limits, a consumer has always to fix upon the varying amounts of a commodity to be purchased. Let us assume that a person having an income of Rs.100 per month decides to frame a table or schedule in the following manner for *ghee* which he would purchase at each possible price during a month.

If the price were Rs. 6 or more, he would buy no ghee			
	Rs. 5	he would buy	1 sr.
"	Rs. 4	" "	1½ srs.
"	Rs. 3	" "	2 "
"	Rs. 2	" "	3 "
"	Re. 1	" "	5 "
"	As. 15	" "	6 "
"	As. 8	" "	8 "

This is called an individual demand schedule. The schedule given above represents the Law of Demand and indicates clearly that with every fall in the price of *ghee* the quantity demanded increases and *vice versa*.

The above schedule may be graphically represented by a curve, known as the Demand Curve.

Representing along OX the quantity of *ghee* demanded and along OY the prices, it can be read from the diagram that if the price is Rs. 5 per seer only one seer of *ghee* is demanded,



The Demand Curve

while if the price is Rs. 3 per seer two seers of *ghee* would be purchased, and if the price falls so low as eight annas per seer he would demand eight seers of *ghee*.

Systems of Demand

An important fact about demand deserving our attention is that all people, to whichever section of the society they may belong, demand things in groups. Man is a social being and his demands are determined partly by his own tastes and inclinations and partly by the standard of living of the society in which he moves about. For instance, a college student's demands for books, pencils, fountain-pen, ink, paper, a wrist watch, bicycle, a couple of suits and some neckties, etc., are

all constituents of one massive group demand. Prof. Chapman writes: "Quite strictly speaking, it is questionable whether there is such a thing as a detached demand for any article. . . . Individual things are almost, if not invariably, demanded as parts of a systematic whole."

He further adds that a person's system of demand is only gradually built up; and it is only gradually modified. In its initial form it is handed down to him by his parents, and this inheritance is supplemented, subtracted from, and remodelled, as an outcome of his education and experience and the social influences brought to bear upon him.

Joint Demand. When two or more commodities are demanded simultaneously and the one cannot serve the purpose unless the other is secured, they are said to be in joint demand. In the demand for knives, there exists a joint demand for knife blades and knife handles. Similarly, there is a joint demand for bricks, brick-layers, clay, lime, cement, masons, labourers, wood, iron, etc., in the construction of a house or building. Again, there is a joint demand for carriage and horses; shoes and laces; milk and sugar; tennis racket and tennis balls; aerated water and ice and so forth. There is, however, no fixed ratio in which complementary goods are demanded nor any hard and fast rules can be laid down respecting a large number of commodities which are in joint demand. For instance, there is a joint demand for lamps and chimneys but we cannot be definite of the ratio in which they would be demanded.

Composite Demand. When a commodity is demanded for two or more different uses, the demand for it is spoken as composite. There are many articles which can be used for more than one purpose. Milk is demanded for drinking, for making ghee, butter, curd, cheese and sweets. Coal is used for generating steam, for heating and cooking purposes, etc. The composite demand for leather consists of different demands accruing from different classes of people. A composite demand is also used to denote the total demand for a commodity from its various uses.

Increase in Demand

An increase in demand for a particular commodity denotes (i) that a greater amount of a commodity is demanded at the *same price* as before, or (ii) that the same amount of commodity is demanded as before even at a *higher price*. This tendency applies equally to the demand of an individual as well as of a market. Suppose the average demand of a market for milk is 50 maunds per day at three annas per seer. If on a festival day a larger quantity, viz., more than 50 maunds of milk is demanded at three annas per seer, or the usual quantity is purchased at four annas per seer, it will constitute an example of an increase in demand for milk on that particular day. This tendency may be graphically represented by the following diagram.

Along OX is measured the quantity of milk demanded, and along OY is represented the price. DD is the old demand curve, while the new demand curve is represented by the dotted curve D'D'. The diagram illustrates the increase in demand by showing that OA quantity of milk is demanded at a higher price AP', or that an increased quantity OB is demanded at the same price AP or BN.

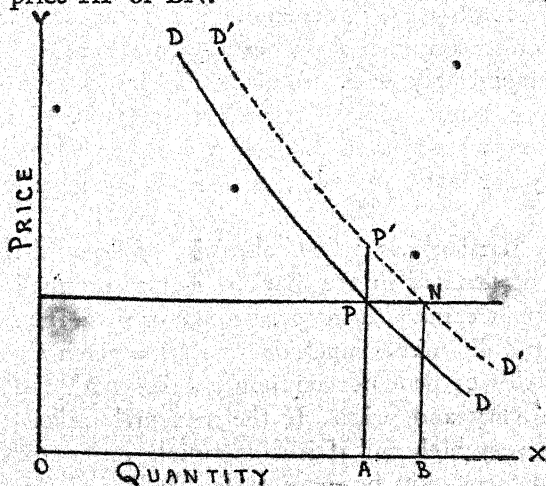


Diagram Showing Increase in Demand

✓ Elasticity of Demand

While studying the Law of Demand it was pointed out that demand for a commodity varies inversely with price, that is, the demand increases as the price falls and diminishes as the price rises. Some variation is caused in the demand for a commodity by a fall or rise in its price. This sensitiveness or responsiveness of demand to changes in prices is known as the *elasticity of demand*. However, the variation in the quantity demanded in response to a change in price is not equally discernible in all commodities. The demand for some commodities increases or diminishes much more rapidly with a fall or rise in their prices than others.

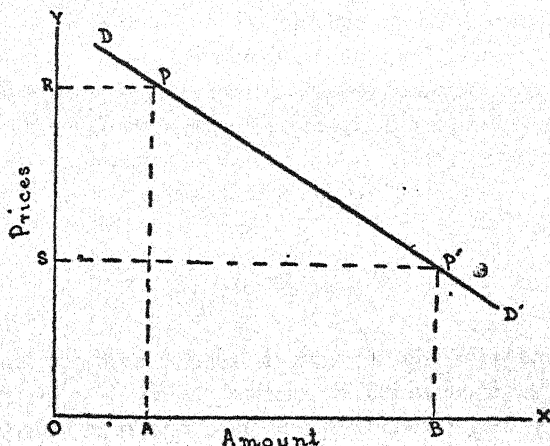
The demand for any commodity is said to be *elastic* when a given rise or fall in price brings about an appreciable fall or rise in demand. If as a result of a fall in the price of Parker Vacuumatic Fountain-pen, a large number of students come forward with their demands, it may be said that the demand of the student community for this particular pen is elastic.

On the contrary, the demand for any commodity is said to be *inelastic* when a considerable rise or fall in price brings only a slight fall or rise in demand. For instance if the demand of a particular consumer for wheat does not tend to increase or decrease appreciably with a fall or rise in its price, then his demand for wheat may be termed as inelastic. The demand for absolute necessities is generally inelastic though perfect inelasticity for any commodity is seldom noticeable in practical life.

Prof. Marshall has defined elasticity of demand thus: "The elasticity of demand in the market is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for a given rise in price." The elasticity of demand commonly varies with the nature of the commodity and price. If the marginal utility of a commodity is very high and if it falls rapidly as its stock increases then its demand will be more or less inelastic. The elasticity

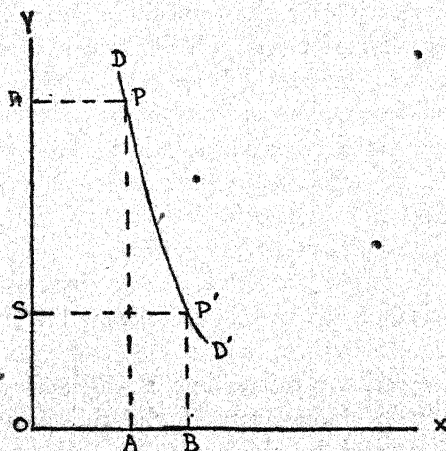
of demand varies directly with the price; it is great with high price and small with low price.

The notions of elastic and inelastic demand may also be represented by the following diagrams.



The Elastic Demand Curve

In the diagram given above, the demand curve DD' represents the elastic demand for a commodity. When the price is



The Inelastic Demand Curve

OR the quantity demanded is measured by OA. But owing to a slight fall in price OR to OS the quantity increases to OB, which is very great.

In the other diagram, the demand curve DD' represents the inelastic demand for commodity. When the price is PA or RO the quantity demanded is OA. But even when the price is considerably lowered to P'B or SO the quantity demanded shows only a slight increase measured by OB. As a general rule, it may be stated that the steeper the nature of the demand curve of a commodity, the less elastic is likely to be the demand for it.

Variations in the Elasticity of Demand

The elasticity of demand varies with price. But the terms high or low price signify only a relative and not an absolute sense. The price which is relatively high to a poor man or community may be scarcely felt by a rich man or community as such; the rich man for instance may consume to his entire satisfaction a commodity whose price is almost prohibitive to a poor man, and even if a substantial fall were likely to happen in its price the latter would still find some difficulty in acquiring the desired units of it. So the elasticity of demand without a reference to the class of people whose demand for a particular commodity we are considering bears no meaning for practical purposes. Each particular class in a society has some rough standard regarding high, medium and low prices and, therefore, a price which is regarded as high by the poorer class may be regarded as medium by the middle class and very low by the rich class. The elasticity of demand for a commodity to one particular class of people is affected directly by the price. Prof. Marshall has stated that elasticity of demand within any class of society will be great for high prices, and great, or at least considerable, for medium prices; but it will decline as the price falls; and gradually fades away if the fall goes so far that satiety level is reached by the members of that class. Hence we may conclude that the elasticity of demand due to changes

in price varies for different commodities; and even for the same commodity it is different for the different classes in a society.

A few useful propositions in respect of elasticity of demand are given below:—

1. *The demand for necessities is usually inelastic, while for comforts and luxuries it is elastic:*—The explanation of this general tendency is to be found in the fact that the articles of necessity cannot be dispensed with as they must be obtained more or less in the same quantity for sustenance irrespective of the price charged while the articles of comforts and luxuries can be dispensed with when their prices are high and can be purchased in larger quantities at the time of falling prices. It is remarked that in England the prices of salt, cheap medicines, many kinds of savours and flavours, etc., are so low even to the poorer classes that any fall in their price would hardly induce a considerable rise in the consumption of these. It shows that once when we have become accustomed to consume a sufficient quantity of a commodity at a given level of price any further fall in its price level will not cause any appreciable rise in our demand. But in poorer countries where even the absolute necessities are wanting the demand for them is elastic.

2. *Influence of variety of uses:*—Generally speaking, a commodity has a more elastic demand if it is required for different uses. When its price rises it tends to be withdrawn from several uses, while when its price falls the commodity is again applied to the previous uses.

3. *Influence of substitutes:*—The more suitable a substitute is available for a particular commodity, the more elastic is likely to be the demand for it. If the price of tea, for some reason or other, shows a slight rise and the price of coffee remains the same, many consumers of tea would begin to purchase coffee thus reducing considerably the amount of tea demanded. Similarly, if at any time the rates of electric light increase, people will easily divert their demand to its substitutes such as gas light or petroleum lamp. As salt has no satisfactory substitute, its demand tends to be inelastic.

4. *Influence of habits*:—Generally, the demand for those commodities to the use of which people have been for long accustomed tends to be inelastic for they would buy more or less the same quantity in case the price rises, whereas the demand for those articles of which the consumption has not become a matter of habit is elastic as a slight rise in price would lead to a postponement of their purchases without experiencing any great inconvenience. The stronger the demand, the greater would be the inelasticity of demand.

5. *Influence of prices*:—When prices are very high or very low the demand is generally less elastic. The demand for rare wines, costly diamonds and pearls, expensive motor-cars and dresses, costly services of renowned doctors and barristers is specially confined to the people of the rich class and even if a considerable fall were to happen in their prices it would hardly induce the people of middle and poor classes to come with their demands and thus constitute no appreciable difference in the quantity demanded. Therefore at very high prices the demand of the poor classes tends to be inelastic. Again, if the price of a commodity is very low so that it is within the easy reach of the most poor the demand for it is less elastic because a fall or increase in its price will not constitute any marked difference in the quantity demanded. Hence it follows that demand is more elastic at middling prices.

6. *Influence of distribution of wealth*:—In general, the more equal the distribution of wealth within a community, the more elastic is likely to be the demand for most commodities, whereas if there is an inequality of distribution and the wealth of the community manages to fall in the hands of the fortunate few the demand for most commodities tends to become inelastic. Taussig has stated thus: "In general, elasticity of demand is increased by an equal distribution of wealth, while an unequal distribution leads to inelasticity in demand."

Meaning of Supply

Like 'demand,' the term 'supply' is used in a very restricted

sense in Economics. In the term 'supply' we do not include the entire stock that is present in the market of a particular commodity at a particular time. Only that much portion of the stock is treated as the supply which the sellers are prepared to offer for sale at the prevailing price. To quote Penson: "The stock is the quantity of goods that could be sold, the supply is the quantity that would be sold at a given price." It is the quantity of a commodity that is offered for sale at a certain price at any given time. Like demand, supply is also affected by price, though in the opposite direction. More quantities of the same commodity are put for sale in the market when the price is high because a high price enables even those producers to sell whose cost of production is a little too high. There is no such thing, therefore, as supply apart from price.

The Law of Supply

Other things being equal, if the price rises then the quantity offered for sale tend to increase and if the price decreases the supply will tend to decrease. For producing the same commodity, say motor-cars, different manufactures have their different costs of production. A price which would yield profit to one may result in a loss to another. When the price is high, even the inferior producers can sell, but a low price forces them to be out of the market altogether. Thus the quantity supplied is affected by the changes in prices.

The Supply Schedule

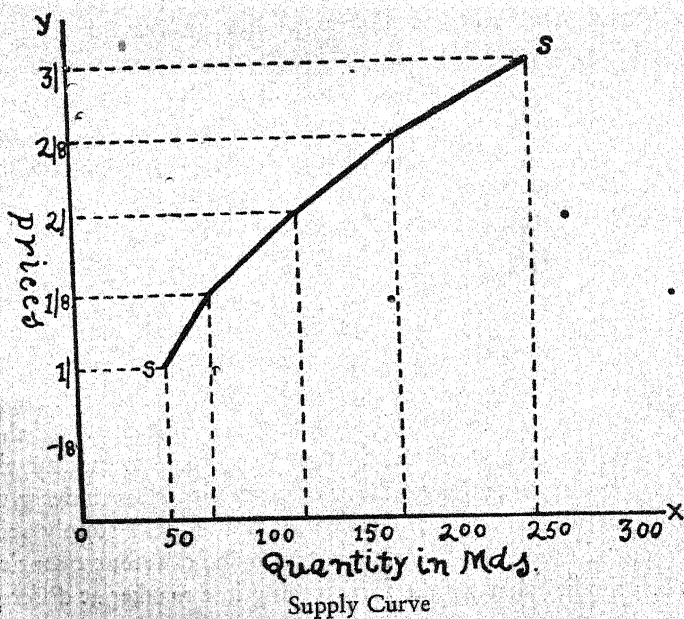
A supply schedule is a list of the different amounts of a commodity which the sellers are willing to sell at each possible price in a particular market and at any given time. A supply schedule can be either of an individual or of a market. If there is a list showing the different quantities of a commodity that are supplied by a certain producer at different prices under given conditions, we have what is called an individual's supply schedule; but if the list in question refers to the different quantities of a commodity that will be forthcoming in a market at different

prices, such a table is the supply schedule of a market.

For example, suppose under certain given conditions of production, the following quantities of 'ghee' are supplied at various prices:

	Rs. a. p.				Mds.
If the price were	1 0 0	per sr.	the supply of 'ghee' would be	50	
"	1 8 0	"	"	"	75
"	2 0 0	"	"	"	125
"	2 8 0	"	"	"	200
"	3 0 0	"	"	"	250

The schedule given above represents the law of supply and indicates clearly that with every rise in the price of 'ghee' the quantity supplied increases and *vice versa*. This schedule may be graphically represented by a curve known as the Supply Curve.



Representing along OX the quantity of 'ghee' supplied and along OY the prices, it is apparent from the diagram that when the price is rising the quantity supplied is going on increasing.

Uses of Demand and Supply Schedules

The services rendered by these schedules to a student of Economics as well as to a layman are multifarious.

1. Economic principles and ideas can be grasped much more easily with the help of these schedules than otherwise, for instance, how clear-cut the laws of demand and supply become when they are illustrated by means of schedules.

2. These schedules explain the behaviour of the purchasers and sellers when the changes in the market price take place.

3. The understanding of the intricate problems of the elasticity of demand and supply would have been a very difficult task but for these schedules.

4. The employment of these schedules brings in that much-sought-for mathematical exactitude and accuracy of ideas in matters economic and, consequently, help in the scientific advancement of this rather inexact science of Economics.

CHAPTER VII

ECONOMICS OF SPENDING AND SAVING

It is already explained that satisfaction of our wants comes through wealth which is got by our productive efforts. In many cases people satisfy a certain number of their wants by their own direct effort without the intervention of money income, more so in rural parts where villagers raise their own food crops, fruits and vegetables, bake their own bread, wash their clothes and supply many other needs directly owing to the plenty of time, space and opportunity at their disposal. However, in the present age of money economy owing to improved means of transport and communication and a greater specialisation of functions the villagers too, like citizens, have become increasingly dependent for the satisfaction of their wants upon others as they have to part with some portion of their income for the services rendered by others. Hence, it has become a usual practice to regard the satisfaction of wants as coming through income and as being dependent on the process known as spending.

What Spending Denotes?

The idea of spending in modern times is very closely related to 'shops and shopping.' In villages petty shopkeepers retail goods in smaller quantities in small thatched huts wherefrom the villagers make their convenient purchases. In larger cities where population is comparatively rich the stocks are large and varied; the display of fancy and attractive wares manufactured in far and wide countries greatly stimulate the demand of different customers. The villagers also find it much convenient to make their purchases from these busy centres. New wants

spring up whenever they happen to come down to cities and notice therein goods exposed for sale. For them, too, shopping has now become the principal means of supplying their wants. Thus the satisfaction of most of our wants comes through the spending of income.

A Historical Survey of Spending

An account of the methods of spending prevalent in earlier periods of human history as well as in modern times will not be out of place. With the exception of a few big cities and towns where master craftsmen maintained their shops for disposing of their articles, there were no suitable facilities in by-gone days of shopping in rural areas for the villagers. A villager formerly could get opportunities of shopping at frequent intervals whenever any pedlar or hawker happened to visit his village. He may also be noticed at the present time in big cities and towns hawking his different articles for sale from one street to another accompanied by loud none the less attractive shoutings.

Weekly or bi-weekly markets, otherwise known as *paith* in our vernacular language, is another source of shopping to the village people. A particular day for a particular locality is fixed when buyers and sellers meet together and make their required purchases. The craftsmen produce for the whole of the week and on the weekly day their goods are brought for sale. Such *paiths* are still a common feature of Indian country towns where exchange transactions in goods like cereals, ghee, yarn, hides, country-made shoes, etc., are carried on on a fairly large scale. Again, shopping opportunities are afforded to the villagers and towns people alike by the celebration of fairs or *melas* in various parts of the country at stated periods of the year. Some of these fairs are attended by a large number of buyers and sellers and bargains are struck according to the conditions of demand and supply. Exhibitions generally organised by district authorities or such other public bodies are a modern phenomena and provide a good opportunity of shopping. At such occasions specimens of different articles of artistic designs

produced by the most ingenious artisans are brought for sale. Such exhibitions not only serve as an advertisement to the consumers but also encourage the production of goods of finer quality by enlightening the ideas of craftsmen. But in modern times owing to the localisation of markets in big cities and large towns and of petty shops in villages, the pedlars, weekly markets, fairs and exhibitions have lost their importance, but in our country these agencies still provide a chief and convenient means of shopping to the consumers.

General Principles of Spending

The description given above is a brief historical account of the way in which people have tried to seek opportunities to spend their money income in satisfying their wants. Let us now discuss the general principles which seem to underlie the spending of income. The amount of satisfaction actually obtained through the spending of income depends for the most part on two things: (a) the method of spending, and (b) the prices of goods and services that we purchase for consumption.

We deal, first, with the question of method. Everyone as a consumer tends to secure from his expenditure or consumption the greatest surplus of utility over cost. Penson remarks that some people are gifted with a peculiar skill in making their money go a long way, and he enumerates the following five principles in order to prove differences in satisfactions with different people.

(i) Some persons have the knack of finding out the exact thing which will satisfy their want. They are not carried away by the fashion of the time or the external appearance of things and remain quite safe from the pressure put upon them by a keen and persuasive salesman or the extremely low prices offered to them for certain articles.

(ii) They are good judges of quality. Two kinds of material may to the unskilled eye look equally good whilst in actuality the more attractive looking may in reality be of inferior quality and wear out more quickly.

(iii) They seem to know where things are to be had best and cheapest and are willing to take the trouble and incur extra time in going to such places.

(iv) They may be what is called "good hands at a bargain," and in that way obtain some advantage in the shape of reduced prices, etc., for the commodity in question. Though in organised markets 'higgling' has become a thing of the past and fixed prices have begun to be quoted by the salesmen realising the unnecessary waste of time and energy, yet in India 'higgling and bargaining' is still a chief characteristic of markets because large differences are sometimes found between the prices demanded and those finally accepted. At such places these 'good hands at a bargain' get the desired thing at a lower price than that at which other less ignorant persons are found purchasing.

(v) Again, some persons are able to make sound comparisons between the claims of various competing wants both present and future. By making a comparison between different wants they try to distribute their income among the different items of expenditure in such a way as to obtain the same marginal utility in each case.

To deal with the second factor, viz., the prices of goods and services, the satisfaction which a man derives out of a certain amount of income depends also upon the prices of goods and services he pays for them. If the prices of goods and services are high, the income will buy less of articles and, therefore, the satisfaction will be much smaller than when prices are low and, therefore, more goods can be purchased with the same income with a consequent greater satisfaction to the consumer. It is good to point out the distinction between the 'variation in the price of a particular article and variation in prices in general.' The rise in the price of a particular commodity does not materially affect our satisfaction unless it covers a major portion of our expenditure, whereas a rise in general price level will bring real decrease in our satisfaction if the corresponding increase in income has not taken place. Hence, it is the general level of prices that commonly indicates the amount of satisfac-

tion which will be obtained by one at the time of spending his income in purchasing a certain quantity and quality of goods and services for his requirements. "If the price level is low, it is evident that the income will suffice for many more purchases, will bring a great amount of satisfaction. But if the price level is high fewer things can be bought, and less satisfaction can be obtained. The relation between the price level and the purchases that can be made with a certain amount of money very much resembles the action of a see-saw, prices at being one end and the purchasers at the other. When one end is down the other is up, and *vice versa*."

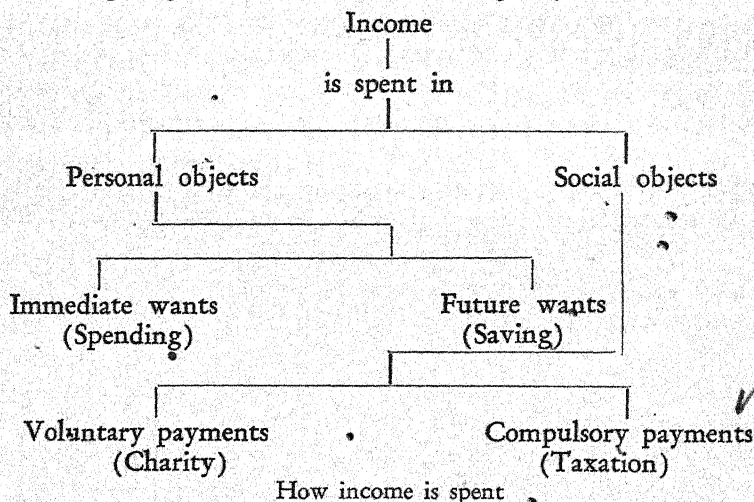
Relation of Saving to Spending

Having briefly discussed the nature of spending, its historical background, the general principles that underlie the spending side and the way in which maximum satisfaction can be secured by the consumers, let us now deal with the nature of saving and its relation to spending. The main object of income derived from economic activities is to satisfy one's wants through spending but the whole of the income is not at once spent in satisfying personal wants. A part of the income is spent on social, religious and other charitable purposes which are incumbent upon persons living in a corporate society; while some of its portion goes to the coffers of the State in the form of taxes which are also essential for the maintenance of peace and order against foreign aggressions and the promotion of social well-being inside the country. Personal expenditure is also of two kinds: (i) present and (ii) future. The former is called spending in which immediate satisfaction of our wants is obtained, the latter is called saving by which a man puts aside a certain portion of his wealth for his future wants. Thus spending signifies that portion of the income which is directly consumed in the satisfaction of immediate wants.

The process of saving begins when the consumer stops present expenditure and begins to secure a greater surplus of utility from the saved wealth by applying it for future satisfactions.

But saving should not be mistaken for hoarding. Mere burying money in the layers of the earth either to derive pleasure from its possession or to use it in times of need is not saving. Saving in the economic sense implies the presence of two essential conditions, viz., (i) postponement of present consumption of goods, and (ii) turning of wealth into capital by deliberately putting it to productive purposes. Savings are turned into capital through various methods. We may employ the saved wealth for further production of wealth, or we may put our savings to the direction of other experts who are more capable for producing wealth, or we may deposit our savings in banks which in turn invest them in some promising enterprises.

For a clear understanding of what we have said above the following diagram should be read intelligently.



The motives leading persons to save are the sense of duty towards one's dependents, the future vagueness ever-haunting in the shape of illness, trade depression, unemployment or emergencies, etc., and the idea of making provisions for the old age when bodily organs cease to function properly and consumption remains the sole purpose of existence. The rate of interest is also one of the powerful factors inasmuch as it determines to

a great extent the amount of saving a man makes. Ordinarily a higher rate of interest will induce people more to save for it will bring an increased income for a fuller life in the future.

Although we have divided spending and saving into separate compartments, yet if analysed critically it would seem that they have one thing in common. As Penson states: "In both cases wealth is given in exchange for certain goods and services, but the difference is that the goods and services are not put to the same use. In the case of spending, the goods and services are applied directly to the satisfaction of wants; in the case of saving, the goods and services are applied to the production of other wealth, and so they bring satisfaction of wants indirectly instead of directly. Spending and saving are both essential features of our everyday economic life. Wealth is only produced because there is the desire to consume it but since capital, the result of saving, is one of the necessary factors of production, wealth must not only be produced for present consumption, it must be produced also for consumption at a future date." Gide writes that spending and saving are one and the same thing inasmuch as saving also leads to consumption—to spending. Money that is saved is always ultimately spent for some purpose. Only instead of being spent by its owner, it is, perhaps, spent by those who received it from him as borrowers, as labourers, or as sellers of goods. What does it matter, from the standpoint of social production whether money be spent by me or by another person?

The controversy regarding the merits and demerits of saving and spending requires a few observations and explanations. Some writers advocate spending against saving and prove that spending of incomes is the best way to benefit the society at large, while the opposite school of thought denies the truth of the argument and regards saving as the best means for the social well-being of the community. Those who advocate spending maintain that a free spending even though it may involve some wastefulness promotes business, trade and industry thereby increasing the income and profits of labourers, merchants and

producers. It is for this reason that misers have been ridiculed as pests of society. But this is totally an erroneous view. The production of commodities, which can only take place with the help of capital will suffer enormously because after a short time in the absence of saving a shortage of capital will be felt as a result of which the industrial progress will be handicapped and prices will tend to rise affecting the interests of consumers adversely. It is not a sound economic policy to spend all and save nothing. On the contrary, if according to the protagonists of saving all were to save and invest their money in industrial enterprises for turning out different sorts of commodities for the people, the question arises who will purchase the increased output when the strictest economy is observed in consumption. The demand will fall much short of the total output and the whole market will be glutted with useless articles with the consequence that the country's resources will run to waste causing a complete economic deadlock. So this view is equally misleading and absurd. The truth, in reality, lies between the two extreme views. Both are necessary in life; a balance between production and consumption, between effort and satisfaction is necessary in order to secure the maximum efficiency for each. Spending is the most important of all economic operations. The utility of saving from the social and economic standpoints is also very important and no progressive nation can afford to neglect it inasmuch as it tends to put capital at our disposal for further production of wealth. Under normal conditions the rate of interest adjusts the balance between saving and spending.

The Social Side of Spending

Having discussed spending from the purely economic and individual point of view let us now proceed to examine the social side of spending, that is to say, how the welfare of the society is affected when an individual attempts to spend his income for the satisfaction of his own wants. From the economic point of view an individual seeks to secure maximum of

gratification out of a given amount of income ordinarily unmindful of the effects which his spending will exercise on the well-being of others. Also from the individual point of view no spending can be a waste unless there is a miscalculation because he pays, as we have learnt elsewhere, for an article only upto the margin at which satisfaction equals price and beyond that he discontinues purchasing. But from the social point of view such a kind of expenditure in which the individual has derived the maximum satisfaction from his income may not be in the best interests of society and, on the contrary, may prove injurious to the general interests of society. Man is a social creature; his actions affect others as well as himself, and this is why individual liberties in spending are hemmed in with certain state laws and regulations where personal actions are considered to be pernicious to the general interests of society.

Voluntary as well as compulsory spending of individuals affects society to a great extent. Our consumption decides the nature of production in the country, our charities as well as the taxes we pay affect the well-being of the society, therefore, society has a right to control our consumption, and extreme views are held regarding the extent to which the State should control the expenditure of an individual. Other people maintain that as consumption is not a matter of any rule or regulation, the State should not interfere in our consumption. It depends upon our taste, custom, standard of living, and various other factors; the society cannot dictate that people should consume this thing and abstain from that thing. But the more moderate opinion and, possibly right too, is that individuals should be allowed to enjoy as much of freedom as possible in their methods of expenditure or consumption, but in those instances where any form of expenditure is distinctly injurious to the individual consumer or to other members of society the sale of such things should be controlled or regulated by the State.

In every country of note legislative measures in some form

or the other have been enacted by way of regulating the sale and consumption of certain harmful commodities in order to achieve the best interests of society. For example, certain restrictions are placed on the sale of poisons and alcoholic drinks. Only licensed salesmen in particular places and at particular hours of the day can sell these intoxicating liquors and drugs. The sale of poisonous drugs like opium, cocaine, etc., is totally prohibited to children. Again, definite quantities have been also fixed by State regulations beyond which a licensed seller is not authorised to sell his licensed articles. All these precautionary measures have been taken by Government because an unrestricted sale of such injurious articles generally leads to a great deal of drunkenness resulting in poverty, inefficiency, misery, crime and social degradation.

Besides these restrictions on injurious drugs and alcoholic drinks, the state also protects the interests of consumers against the adulteration of goods particularly of the food articles such as milk, ghee, sweets, etc., essential for the bodily development, and the adulteration of which with some inferior or stale quality of articles leads to serious consequences. Food inspectors and public analysts are appointed to have a watch on the required quality of articles and instances are not lacking where offenders are given exemplary punishments for their unfair dealings. Hence, in the better interests of the society, these restrictions have been rightly imposed.

Spending and the Producers

The basis of our productive activities lies deep hidden in our demands meaning thereby that our demand for a particular article or service tends to stimulate its production. Thus spending gives direction to the production of a commodity in a country. It is because of the fact that our spending should be a wise one and our economic policy should always be to employ our capital and labour in industries which are of greater social advantage in preference to those which produce goods giving only a passing satisfaction or satisfying some whimsical or less

useful demand of the people. If people get into the habit of wine drinking the inevitable result would be that capital and labour of the community which could have been more profitably employed in industries of greater social advantage will be diverted to the manufacture of intoxicating liquors with the consequences that besides the deteriorating effects on the health of the consumers, it will also affect adversely the interests of other members of society in a variety of ways. Hence, the drainage of productive forces from useful channels to less useful ones is condemnable both from social and economic points of view.

Spending of one class of consumers affects also that of other classes of consumers. The luxurious expenditure of a few persons may affect the supply of necessities of the rest of the community for in its absence all the labour and capital which are now expended on the production of luxuries would have been devoted to the production of necessities of life. Such extravagant demands in general tend to reduce the total welfare of society.

Spending and Idlers

Just as a particular set of consumers due to their whimsical demand for fleeting enjoyments brings about a reduction in the general welfare of the community similarly the presence of a class of idlers in a community brings about a reduction in the total national wealth and thus damages the economic welfare of the community. The idlers are spoken of as parasites and a drain on the wealth of the community as they only consume and do not aid in augmenting the total stock of national wealth. No doubt, many fortunate persons after inheriting large riches from their ancestors pass a life of ease and luxury without putting in any additional work for the increase of national dividend, but their case may be defended to a certain degree on the score that they are now enjoying the fruits of their (ancestor's) past labour. But on what moral, social or economic grounds can we defend the case of those able-bodied idlers who

are neither rich nor have inherited any property of their own consume the wealth of the society without adding one iota to the wealth of the community. This is one of the very common criticisms levelled against the institution of beggary in India where huge crowds of sturdy mendicants and habitual idlers in the garb of true *sanyasis* prosper like drones on the wealth produced by the industrious members of the country. The able-bodied professional beggars could easily support themselves by work if they chose to do so. It must also be admitted at the same time that our thoughtless and promiscuous habit of giving charity, otherwise known as alms giving, to these villainous mendicants whose corruption is no secret encourages their idleness, inactivity and vagrancy as they find it much more easy and comfortable to live by begging than by working with their own hands. The problem is a grave social problem as to some castes begging and living in this world with all the paraphernalia of family enjoyments and luxuries, without working and depending upon the frugal charities of others, appears as a hereditary privilege. Thus the total amount of national wealth is reduced and over and above that a tremendous amount of wealth can be produced and utilised for increasing industrial activities of the country if they are only made and taught to do work. By this we do not mean that charity should altogether stop. Paupers who cannot work for a living, helpless widows and orphans, the blind and the cripple must all be supported by the community as it should be our bounden duty to help the suffering humanity. Only the truly deserving should receive our greatest considerations and the mendicancy should be discouraged at all costs in order to increase the productivity of the nation and the economic welfare of the country.

The Problem of Luxuries

The subject of luxury is a bit complicated one as the views expressed by economists regarding it are sometimes diametrically opposite. In fact, much of the controversy has been due to a lack of a proper handling of the subject and owing to the vari-

able nature of the definition itself. Some people justify the consumption of luxuries while others are equally emphatic in their condemnation. Let us attempt to arrive at a correct definition in order to have a proper knowledge of the subject and to avoid all possible entanglements?

Luxuries are those commodities which are not indispensable to life or industrial efficiency; they mean the gratification of a superfluous want. But they are not condemnable on that score, for, as Voltaire said, the superfluous is also very necessary. Luxuries can be advocated provided they tend to raise the standard of life by stimulating consumption and production, and, as one learned economist remarks, 'we may properly wish that everybody, even the poorest people, might have a little of the superfluous, and consequently a luxury.' It is also an admitted fact that the present stage of civilisation could not have been achieved without the multiplication of new wants which have been always at first regarded as superfluous and hence luxurious. With the advance of civilisation and the cheapening of the commodities in consequence of the marvellous improvements in the means of production, the luxuries of yesterday are fastly becoming the necessities of today. And had we suppressed all our desires for luxuries in pursuance of the dictates of all those who condemn luxuries, we would have closed the very doors of economic progress and should have wandered today also like the brute savages in the remotest periods of history. Keeping in view these beneficial effects accruing from luxuries, their wholesale condemnation is not justifiable.

1. *Good points about luxuries.*

(a) The desire for luxuries is a mark of progress and at the same time a stimulus to invention and to productive improvements. Many people put forth their best efforts only because they want to indulge in luxuries. In the absence of any desire to consume luxuries much of the ceaseless economic activity and enterprise that we notice all around us would be conspicuous by its absence. It is due to this fire of ambition

that man takes all sorts of enterprises with the expectation that he will enjoy a fuller life having a complete command over the most expensive luxuries of life. Many economists point out that the existence of luxuries in a community is an indication of a progressive state of society.

(b) The beneficial effect of luxuries can be noticed in other directions as well. They are regarded as a very sound and reasonable check against any increase in population beyond the limit of subsistence because in the very nature of things people resorting to the use of luxuries will form a comparatively high standard of comfort below which they would not like to live, and would, therefore at all costs tend to maintain the same standard of comfort even refusing marriage, and if their financial conditions permit marriage they will refuse to have many children if they in any way seem to make encroachments upon their standard of life. It needs no comment that in poor families in the absence of any fixed standard of life, children are ushered into this world indiscriminately without having any provision for their livelihood with the result that they—ill-nourished ill-clothed like their parents—also suffer from industrial inefficiency making the situation still cumulative."

(c) A sort of provision against a national disaster is constituted by luxury in the form of costly ornaments, etc. The possession of articles of luxury is a great security to tide over any critical period.

(d) To the extent that the production of things of luxury stimulates high grade and artistic labour there is a social value for that kind of luxury but many of the wants for luxuries are quite debased and, therefore, injurious to the interests of society.

2. *Luxuries which are socially condemnable and unjustifiable.*

Luxury is condemnable only when it results in wastefulness, when it endangers the productive forces of the wealth-producing members of the community and when the satisfaction obtained by its consumption is seriously disproportionate to the social labour consumed. Prof. Gide has dealt with this con-

ception so critically that no apology is required to quote it *in extenso*. He writes: "From the point of view of society, the sole criterion of wastefulness is *not the amount of money spent but the quantity of wealth or labour consumed* in the satisfaction of a given want. It must always be borne in mind that the sum total of existing wealth is insufficient to satisfy even the elementary wants of the greater part of mankind, and that the productive forces which provide and increase our stock of wealth,—land, labour and capital,—are all limited in quantity. All this is a problem of proportion. Unjustifiable luxury or prodigality consists in a disproportion between the amount of social labour consumed, and the degree of individual satisfaction obtained."

(a) The economic ideal should be necessities for all before luxuries for any; luxury becomes a very great evil if the rich spend a large wealth in wasteful luxuries when a large number of persons goes ill-bred, ill-clothed and ill-housed. In India the luxury of this type is largely prevalent where the manifestations of the inequality of incomes are far more pronounced than elsewhere in the world. When millionaires roll in wasteful luxuries while the industrious wealth-producing members suffer from the lack of a proper nourishment bordering almost on actual starvation, surely this is an evil of the greatest magnitude for in the long run it is too detrimental to the productive forces of a nation. It is pointed out that in the prosperity of the working classes lies the prosperity of the rich; if the standard of comfort of the work-people upon whose labours depend their luxurious modes of life shows any fall for lack of good nourishment, proper clothing or healthful homes, the consequences to the rich will no more be salutary.

(b) The evil effects of luxuries are all the more condemnable when the poor indulge in luxuries. The large sums which the poor people spend daily for drink are not at all justifiable from the social, economic or moral point of view. Nothing to speak of the poor workpeople possessing slender purses, families once prosperous and flourishing have been stamped out

beyond any hope of regeneration on account of the cankerous habit of wine-drinking. "Drunkenness," writes Prof. Gide, "is a terrible form of luxury, more ruinous than any other, at least for the poorer classes of society—most other luxuries being inaccessible to them."

(c) The popular belief that luxuries give employment to labour; that extravagant expenditure on capricious luxuries is "good for trade" is quite erroneous and misleading. It is true that luxuries may give certain business a stimulus. But it remains to be seen whether or not the expenditure in the manufacture of luxuries has been rightly incurred and is in the best interests of society. Indeed the demand for luxuries creates a demand for work but it must be noted that the consumers of luxuries are making use of labour and capital which could have been invested in several industries manufacturing goods required by the community for the satisfaction of their most intense wants, and in which more workers could be employed than the workers who are engaged in producing the articles of luxury. So there would be an equal employment if the money were expended in some other industries giving more useful employment by the production of much more useful commodities from the point of view of society.

3. *Are Works of Arts Luxuries?*

Opinions are divided and some economists prefer to classify the works of art under luxuries. But in the light of our definition we have quoted in one of the preceding pages, it should be noticed that genuine art does not require efforts and sacrifices disproportionate to the pleasure derived by the community at large, as a few days labour of the artist is sufficient to provide exquisite enjoyment that may be repeated throughout succeeding generations of mankind. Therefore, art is a justifiable luxury. Rare and beautiful works of art such as Raphael's paintings, the frescoes of Ajanta, or an exquisite work of architecture like the Taj Mahal always produce good effects, and the satisfaction

obtained is much greater than the social labour consumed in their production.

What is Waste?

We have discussed so far about the social side of spending and pointed out therein that individual spending sometimes results in wasteful consumption if considered from the point of view of society; let us now prepare ourselves to understand the economic significance of the term 'waste.' By waste we mean spending money without a corresponding amount of satisfaction in return or making efforts which do not bring a corresponding return in satisfaction. Luxurious expenditure such as in marriage festivities when large sums of money are spent away in the display of grand banquets and fire-works, etc., is a sheer waste from the social point of view as the fleeting enjoyment involves a very disproportionate expenditure of labour and capital, though from the individual standpoint it is not a waste for the satisfaction is proportional to sacrifice involved. The amount of labour and capital now expended on a fleeting enjoyment might have been applied to more permanent uses so as to secure the maximum advantage to society.

In a similar manner, destruction of wealth, whether accidental or intentional and which brings with it no satisfaction at all, is always an instance of waste. The replacement of the destroyed or spoilt wealth does not give additional satisfaction. Supposing, if houses are destroyed as a result of fire or an earthquake some ignorant people may derive consolation on the ground that this breakage or wastage will furnish masons, carpenters, blacksmiths and other persons connected with the building trade with extra work, thereby, quickening the industrial activity; but this is totally an erroneous idea if considered from the general interests of the society for the money that is now used to replace the lost houses could have been utilised in some other branches of productive activities making the trade and industrial activity equally good and brisk. On the contrary, the owners of the houses whose services they would have utilised

for a much longer period of time are suddenly called upon to undertake this extra expenditure in rebuilding the houses without getting any corresponding satisfaction.

FAMILY BUDGETS

A complete statement of the various incomes and expenditures of a family during a certain time is called a family budget. It is evident that the expenditure of different people depends upon habits, customs, climatic conditions, ideals of life and the various physiological needs, but a detailed study of the various expenditures of different families is both interesting and instructive. In 1857 Dr. Engel, a Prussian, collected statistics of a number of German families living in different circumstances of life, and on the basis of these pointed out that there is a marked uniformity in the habits of consumption of very many classes of people. The general results arrived at by Dr. Engel about expenditure known as the Engel's Law of Consumption are:—

1. As the income of a family increases, the percentage of expenditure on food diminishes;

2. The percentage of expenditure on clothing remains approximately the same;

3. The percentage of expenditure on rent, fuel and light also remains nearly the same;

4. A constantly growing percentage is spent on education, health, recreation, amusements, etc.

Table showing the results of Dr. Engel's investigations

Items	Labourers Family Income: £ 45 to £ 60 a year	Middle Class Family Income: £ 90 to £ 120 a year	Well-to-do Family Income: £ 150 to £ 200 a year
Food	62 per cent.	55 per cent.	50 per cent.
Clothing	16 „	18 „	18 „
Rent	12 „	12 „	12 „
Fuel and light	5 „	5 „	5 „
Education	2 „	3.5 „	5.5 „
Health	1 „	2 „	3 „
Recreation and amusements, etc.	2 „	4.5 „	6.5 „

It may, however, be noted that the proportion of expenditure, in a family of a particular class, on food, clothing, recreations, etc., is not the same in all the countries. Differences in habits, customs, climates, etc., are responsible for so many variations in one's expenditure. The results of the study of Bombay Working Class Budgets by Findley Shirras also confirm the conclusions of Dr. Engel.

To an Indian student the task of collecting the statistics of consumption of Indian families is not an easy one. Illiteracy among the masses, differences in the ideals of life, various social divisions and the caste system do not allow any fixing of a standard of consumption, but attempts should be made to collect carefully the Indian statistics of consumption. It is difficult to get accurate and correct statement of income and expenditure of a family but, however, by putting carefully selected questions information can be gathered and all sources of errors

eliminated. The duty of the investigator is to put the information so collected in a manner which may easily be understood by all and be a source of education and guidance to the people of the country. The following two specimen budgets of consumption of the families of a middle class man and a labourer will give sufficient guidance to the student of Indian Economics.

Budget of Consumption of Mohna

Name and address of the head of the family	Mohna resident of Tahsil Faridpur, District Bareilly.
Number of members in the family	Men 2, Females 2, Children 2, Total 6.
Occupation	Carpenter.

BUDGET OF CONSUMPTION FOR (PERIOD) ONE MONTH

	Rs.	a.	p.
Income from his profession	21	0	0
Income from other sources (His brother is employed in a shop)	10	0	0
TOTAL ..	31	0	0

INTRODUCTION

Mohna has to support a big family consisting of himself, his wife, mother, younger brother and two daughters aged 9 and 7 years. His wages are 12 annas per day and in this particular month he worked for 28 days in the house of a local zamindar, while his brother is employed in a cloth dealer's shop. The mode of living of the family is very poor and with difficulty income suffices for the maintenance of the members of the family. He lives in a very small *kachcha* house in a congested part of the town. The sanitary condition of the surroundings is very unhealthy and keeps the members in a weak state of health. Mohna is also habituated to alcoholic drinks once or twice a week.

The entire family is illiterate and the daughters are not sent to the local girls' school.

Details of the Budget of Consumption

Items of Expenditure	Expenses	Percentage	Rates, Quantity and Remarks
1. Food.			
Wheat Flour ..	3 0 0		36 srs. @ 12 srs. a rupee
Gram Flour ..	1 0 0		14 " " 14 " " "
Barley & Jwar	1 8 0		28½ " " 19 " " "
Rice ..	1 8 0		9 " " 6 " " "
Pulses: Urd, Masur and Arhar ..	1 8 0		Urd 8 as., Masur 4 as., Arhar 12 as.
Total ..	8 8 0	27.43	
2. Other Articles of Food.			
Ghee ..	1 6 6		1½ srs., @ Rs. 1-2 per seer
Mustard oil ..	0 8 6		1½ seer.
Sugar & Gur ..	0 14 0		As. 8 Sugar, Gur 3 seers.
Spices & Salt ..	0 10 0		Salt as. 2, Assorted spices 8 as.
Vegetables ..	0 12 0		Potatoes and other green vegetables.
Fruits ..	0 3 0		Generally he takes no fruits except when they are very cheap.
Sweetmeats ..	1 14 0		1 anna per day for daughters and self.
Milk ..	0 15 0		6 pies per day for daughter.
Total ..	7 3 0	23.2	
3. Clothing and Shoes.			
Shoes ..	1 4 0		for brother
2 Caps ..	0 5 0		" "
1 Shirt ..	0 14 0		" self
1 Chadar ..	1 3 0		" wife
Total ..	3 10 0	11.7	

Items of Expenditure	Expenses	Percentage	Rates, Quantity and Remarks
4. Rent	1 8 0	4.83	Per month.
5. <i>Fuel and light.</i>			
Fuel	1 0 0		
Dung cakes ..	0 6 0		
Kerosene oil ..	0 5 0		2 bottles
Vegetable oil ..	0 3 0		
Total ..	1 14 0	6.05	
6. <i>Education and Health.</i>			
Medicines ..	0 10 0		His daughter was ill for a week.
Total ..	0 10 0	2.01	
7. <i>Intoxicants, amusements and guests.</i>			
(a) Wine ..	2 4 0		
(b) Dangal Ticket ..	0 4 0		
Total ..	2 8 0	8.06	
8. <i>Social and religious.</i>			
Marriage Tika ..	1 0 0		Tika in a marriage of his cousin.
Religious Katha in a temple ..	0 2 0		
Total ..	1 2 0	3.62	

Items of Expenditure	Expenses	Percentage	Rates, Quantity and Remarks
9. <i>Miscellaneous.</i>			
Dhobi ..	0 4 0		
Barber ..	0 3 6		
Sweeper ..	0 2 0		
Charity ..	0 1 6		
Pan and tobacco	0 12 0		
Letters and travelling ..	0 1 0		
Utensils ..	0 2 0		
Total ..	1 10 0	5.24	
10. <i>Saving and investment.</i>			
..	2 7 0		
Total ..	2 7 0	7.86	
Grand Total ..	31 0 0	100	

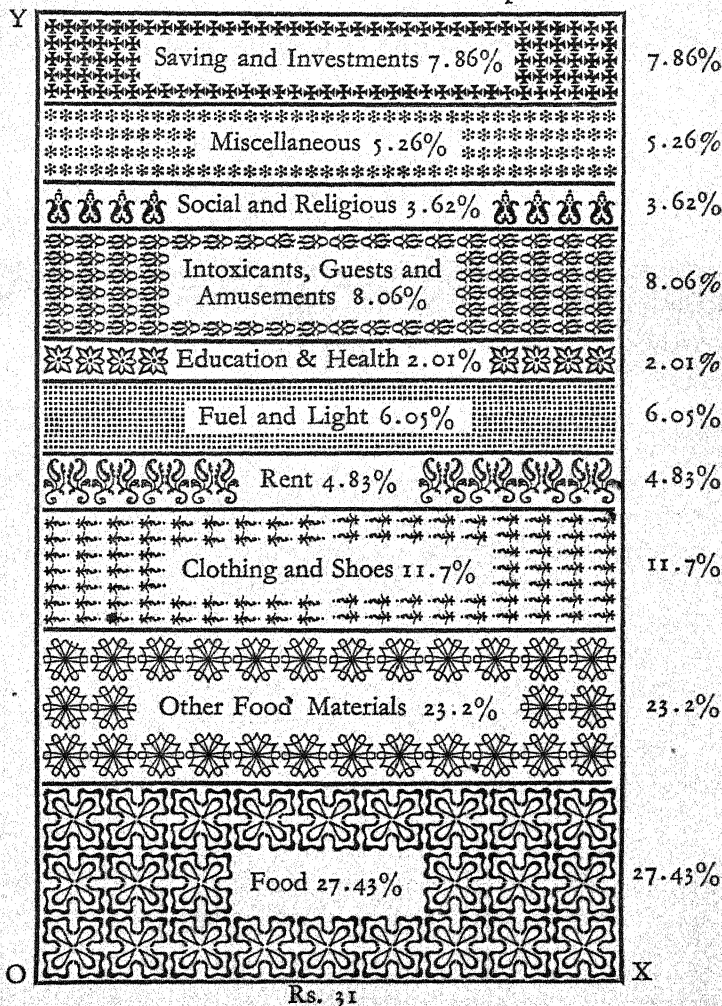
Graph showing the Budget of Consumption of Mohna's family

Period: One month.

Total Income Rs. 31.

Scale OX 1" = Rs. 10.

Scale OY 1" = 20 per cent.



Budget of Consumption of Dena Nath Verma

Name and address of the head of the family	Dena Nath Verma resides in Mohalla Katra, Moradabad.
Number of members in the family	Men 3, Female 1, Total 4.
Occupation . . . Service	Manager of a big commercial firm.

BUDGET OF CONSUMPTION FOR (PERIOD) ONE MONTH, 1936

	Rs.	a.	p.
Income from his profession	155	0	0
Income from his property (<i>His house at Bareilly</i>)	9	0	0
	<hr/>		
TOTAL . . .	164	0	0

INTRODUCTION

Dena Nath Verma is a resident of Bareilly but is employed at Moradabad on a monthly salary of Rs. 155. The family lives in a well-ventilated double storied house situated on the bank of the river Ram Ganga. The standard of living of the family is fairly high and is typical of a middle class family in the United Provinces. His wife is a well educated and a religious-minded lady who manages household affairs efficiently. His younger brother is dependant upon him and is a student of first year Intermediate class while his son Prem Nath Verma reads in class VI in a local school. Dena Nath Verma is a great lover of music and regularly coaches his son in the art of music with the help of a friend. Every year he takes a fortnight's leave to visit some religious places in India. He keeps a regular and an accurate account of his monthly expenditures.

Details of the Budget of Consumption

Items of Expenditure	Expenses	Percentage	Rates, Quantity and Remarks
<i>1. Food.</i>			
Wheat flour ..	6 0 0		66 srs. @ 11 srs. a rupee
Gram flour ..	0 8 0		7 " " 14 " " "
Rice ..	3 0 0		9 " " 3 " " "
Pulses-Urd, Moong, Arhar and Masoor ..	2 0 0		Moong 8 as., Urd 12 as. Arhar 8 as. Masoor 4 as.
Total ..	11 8 0	6.4	
<i>2. Other articles of food.</i>			
Meat ..	2 4 0		Twice a week.
Ghee ..	6 12 0		6 srs. @ Re. 1-2 per sr.
Milk ..	7 8 0		2 srs. everyday @ 8 srs. a rupee.
Sugar ..	2 8 0		7½ srs. @ 3 srs. a rupee.
Salt & spices ..	1 8 0		Assorted.
Fruits ..	4 0 0		Season fruits.
Vegetables ..	3 12 0		2 as. per day.
Sweets ..	4 0 0		
Total ..	32 4 0	19.7	
<i>3. Clothing and Shoes.</i>			
Bedding ..	2 4 0		2 Bedsheets.
Shoes ..	7 8 0		2 pairs of shoes @ Rs. 3-12 each pair.
Umbrella ..	1 14 0		
Dhotees ..	7 14 0		3 pairs of Dhotees @ Rs. 2-10 each pair.
Total ..	19 8 0	11.9	

Items of Expenditure	Expenses	Percentage	Rates, Quantity and Remarks
4. <i>Lodging.</i>			
House rent ..	14 0 0		Per month.
White washing of the kitchen	1 7 0		
Total ..	15 7 0	9'4	
5. <i>Fuel and light.</i>			
Fuel	2 0 0		9 units @ 6 as. per unit, Service rental 8 as. Metre Rent 12 as.
Electricity charges	4 10 0		
Total ..	6 10 0	4'0	
6. <i>Education and health.</i>			
Tuition fees ..	9 8 0		His son caught severe cold.
Books and pencils	1 14 6		
Doctor's fee ..	2 8 0		
Medicines ..	0 10 0		One copy of the <i>Leader</i> everyday.
Newspapers ..	1 10 0		
Total ..	16 2 6	9'9	
7. <i>Jewellery, furniture etc.</i>			
Bangles ..	1 0 0		One folding chair.
Furniture ..	2 12 0		
Total ..	3 12 0	2'3	

Items of Expenditure	Expenses	Percentage	Rates, Quantity and Remarks
8. <i>Amusements and entertainment of guests.</i>			
Cinema ..	3 0 0		Cinema tickets twice a month.
Total ..	3 0 0	1.8	
9. <i>Miscellaneous.</i>			
Pocket expenses to son & brother ..	5 0 0		Re. 1 to son and Rs. 4 to brother.
Charity ..	4 4 0		Subscription for charitable purposes.
Religious ceremonies ..	2 0 0		Thread ceremony at a friend's house.
Postage ..	0 9 0		
Travelling ..	2 10 0		A trip of Bareilly.
Dhobi ..	3 4 0		
Barber ..	1 8 0		
Sweeper ..	0 12 0		
Servant ..	4 0 0		With food.
Maid-servant ..	1 8 0		With food once a day.
Tobacco and pan	2 0 0		
Miscellaneous expenditure ..	2 12 6		
Total ..	30 3 6	18.4	
10. <i>Saving and Investment.</i>			
Insurance premium ..	6 0 0		Insured for Rs. 1000.
Saving in cash	20 9 0		No Income tax, his income is below 2000.
Total ..	26 9 0	16.2	
Grand Total ..	164 0 0	100	

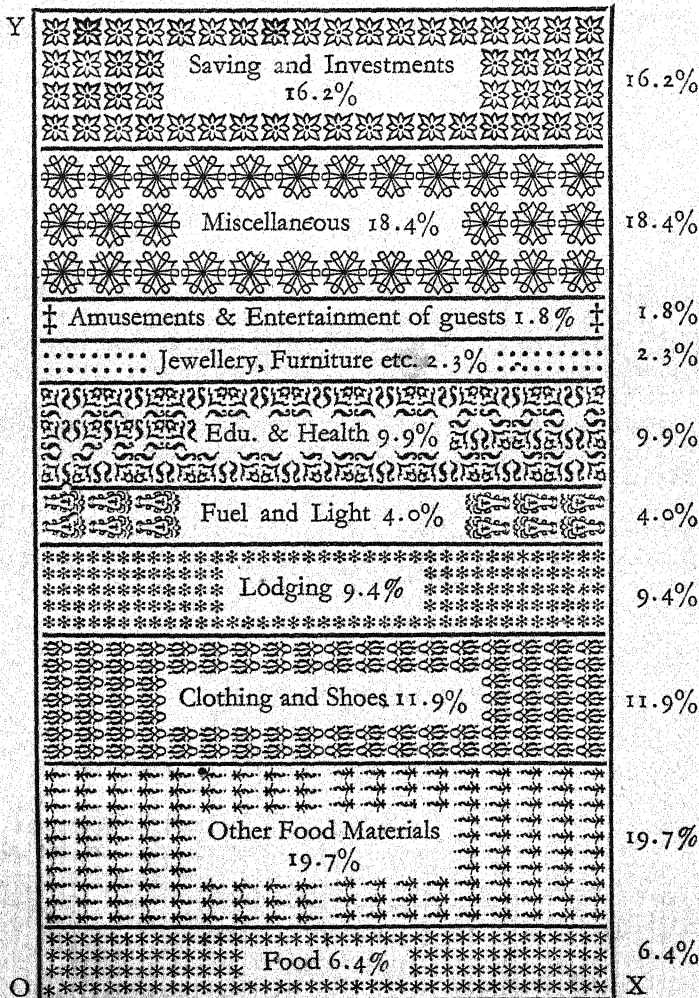
Graph showing the Budget of Consumption of Dena Nath Verma's family

Period: One month.

Total Income Rs. 164.

Scale OX 1" = Rs. 50.

Scale OY 1" = 20 per cent.



Rs. 164

Nature of Consumption and Income in India

The results of family budgets enquiries go to show that a very low standard of living is found all over the country, specially in the rural areas. It is rightly remarked, "they do not live but they only exist." A close study of the people of India will reveal that 'the rural population seemed to try to stifle appetite rather than to meet it properly; whether a commodity consumed was nutritious and health-giving was hardly considered.' This standard of living and comfort, when compared with the European standard, looks ridiculously low and proves that the Indian cultivator is the poorest man on the surface of the Globe. It has been recognised now by the government and social reformers that the secret of the prosperity of the agricultural population is the filling of their stomachs. The majority of the people are underfed and are living on the verge of semi-starvation. An Indian cultivator cannot afford to enjoy the comforts and the entertainments of the modern life. He consumes the cheapest food; wears the coarsest cloth; "his mansion is a mud-hut with a roof of sticks and palm leaves; his bedstead, if he has one, consists of twisted sticks;" he possesses a few brass and earthen utensils; smokes ordinary tobacco and Bidies, uses 'Sarso,' 'til,' 'Ulsi,' and kerosene oil for light and other purposes; burns cowdung cakes, faggots and dry leaves in his kitchen; and owns a grinding stone, a few straw mats and a quilt of rags as his only possessions. "The trouble with India is a stomach trouble while other questions fade into insignificance before this terrible economic problem."

The higher class families are in a sound economic position and maintain a high standard of comfort while the middle class families are in a solvent position but their status is low. The lower class families which depend for their living chiefly upon daily wages are the lowest in the social scale and live a miserable life. The number of members in a family goes on decreasing as we move from the lowest standard of living to the highest. The bread-winner has to support all the dependents and un-

productive hands in the joint family. More than thirty millions of people in India are always in want of food and their ill-nourishment brings in its train cholera, influenza, plague, etc. Sir Griffen once said that, "forty-two millions of people in the United Kingdom consume in food and drink alone an amount equal to the whole income of three hundred millions of people in India."

Various facts and figures can be given to show that the standard of living in India is now slowly and gradually rising. We see a change in dress, food, houses and other conveniences of life of the various types of the people living in the country. The Government also maintains that there is an appreciable improvement in the methods of living. Where house to house enquiries have been made, it has been found that the average villager eats more food and has a better house than his father, that to a considerable extent brass and other metal vessels have taken the place of the coarse earthen vessels of ancient times, and that his family possesses more clothes than formerly. Still a few palatial buildings, good clothings and better quality of food consumed by a few, cannot be an index of the prosperity of the masses. If we want to study the actual condition of the people we should study the life as it is lived in villages, the bustees and slums of the cities.

Diet of the Indian People

The quantity and quality of food consumed in India is determined by custom, religion and other prejudices rather than by purely economic considerations. The total food supply in India is not enough, to maintain the people depending on it. "The Indian people are underfed and the consequences are obvious and unavoidable. The progressive deterioration in physique and energy make the additional production of food increasingly more and more difficult. This vicious circle is complete." Some people maintain that the diet of the ordinary masses is worse than that of a prisoner in an Indian Jail. The average quantity of daily diet needed by an adult living in the

rural areas consists of the following:—

Grain	.....	$\frac{5}{8}$ Seer.
Pulses	.....	$\frac{1}{8}$ „
Vegetables or meat	.....	$\frac{1}{8}$ „
Salt and spices	.....	1 Tola.
Oil	.....	1 „
Ghee	.....	If available.
Sugar or gur	.....	$2\frac{1}{2}$ Tola.
Milk & cheap fruits	.....	Not very often.

Average yearly consumption in England and India compared

	ENGLAND	INDIA
Salt and spices	37 $\frac{1}{2}$ seers	6 $\frac{1}{2}$ seers
Food	445 „	50 „
Sugar	45 „	12 $\frac{1}{2}$ „
Clothing	34 „	1 $\frac{1}{2}$ „
Meat and fish	60 „	20 „
Liquors	30 gallons	1 $\frac{3}{4}$ gallons
Tea	3 $\frac{1}{4}$ seers	$\frac{3}{4}$ seers
Milk	.. ..	8 „

It will be seen from the above figures that a very low standard of consumption is maintained in this country and the people are suffering from a widespread malnutrition. It is obvious that a very large number of families must fall below the poverty line. The scale of minimum needs is very low and makes no allowance for recreations, tobacco, replacements of utensils, etc., and expenses of illness and holidays. If we make an estimate of the barest necessities and the income of the individual consumer or a family, it will be evident that there is no provision for milk in the budget of an average family. The Ministry of Health and other Welfare Associations in England advocate at least one pint of milk per day upto six years

of age, reducing its quantity to a quarter of a pint before the age of sixteen years is reached. Our children get little or no milk; the sacrifices frequently made by the mother in order that her children may have more quantity of milk, present a grave problem in lowering the vitality of the motherhood. Little progress can be made in reducing infant and maternal mortality until provision is made for the exceptionally high nutritional needs of mothers.

Consumption of stale bread, dry vegetables and unwholesome articles of cheap food is practised extensively in our country. The people have yet to learn the utility of the vitamin qualities of fresh fruits and green vegetables. Utter ignorance and passive indifference play an important part in the selection of one's diet. People consume whatever they can procure easily, without judging the nutritive value of the selected articles.

"It must be pointed out that a huge waste results from a diet that is prescribed by indifference, custom or religion rather than by strict economic considerations. In the West poverty has fixed the diet of the people. The German eats cabbage, the American eats maize, the Englishman eats margarine in place of butter not because the people have a natural taste for these things, but because these have been forced upon them by economic conditions. Everywhere poverty has dictated the food to a greater extent than appears to be the case here, where people respond to hard times by reducing the quantity consumed rather than by altering the articles consumed." For the last fifteen years there appears to be a marked increase in the consumption of wheat, ghee, meat and vegetables in place of cheap millets, oils and pulses. Many people believe that an improvement in the diet of the masses is something desirable which should be aimed at; but from the economic point of view it is not so. An expensive diet is an economic loss unless it results in a production of a greater amount of wealth than is lost in the extra consumption; our diet should be fixed by purely economic considerations.

Individual Income

The fact that the average income of an individual is very low cannot be disputed by anybody. The income is not even enough to cover the barest necessities, what to say of conveniences and comforts of life. Statistics of the family budgets show that the people are living below the poverty line. Major Jack classified the various classes of society into agricultural and non-agricultural and collected their annual income and expenditure as given below:—

Agricultural Families

Percentage	Income	Condition
A 50 per cent	Rs. 60 per head	Living in comfort
B 28 " "	" 43 " "	" below comfort
C 18 " "	" 34 " "	Poverty line
D 4 " "	" 27 " "	Below poverty line

Non-Agricultural Families

A 47 " "	Rs. 80 per head	Living in comfort
B 27 " "	" 42 " "	Below comfort
C 20 " "	" 31 " "	Poverty Line
D 6 " "	" 24 " "	Below poverty line

The total indebtedness of both the rural and urban classes in India is alarmingly great and shows the scantiness of an individual's income to satisfy his minimum needs. Many economists and well-known social workers, at different periods of time, investigated the problem of income per head in India. In

1931 according to the Simon Commission Report the income per head of an Indian was 1|12 of the income of an English man. This is really a very optimistic estimate which is based perhaps on the income of the people living in the cities alone. The annual agricultural produce would work out to about Rs. 1,200 crores. On the basis of this figure the average income of a cultivator will not be more than Rs. 42 a year or less than -|19 per day. Even grain and other food worth -|19 would not be sufficient to ward off starvation what to say of purchasing other necessities of life.

Many investigators adopted different methods of estimating the National Income and got different results as shown below:—

<i>Name of Investigator</i>	<i>Year</i>	<i>Income per head</i>		
		<i>Rs.</i>	<i>a.</i>	<i>p.</i>
Dadhabhai Naorozi	1870	20	0	0
Digby	1899	18	0	0
Lord Curzon	1900	30	0	0
Digby	1900	17	4	0
Wadia and Joshi	1914	44	5	0
Shah and Khambata	1922	67	0	0
Findley Shirras	{ 1921	107	0	0
	{ 1922	116	0	0

INCOME PER HEAD IN SOME OTHER COUNTRIES

<i>Country</i>	<i>Income per head</i>		<i>Annual trade per head</i>	
		<i>Rs.</i>		<i>Rs.</i>
India	1.	67	Shah & Khambata	20
	2.	116	Findley Shirras	
	3.	44	Wadia & Joshi	
England		690		390
America		950		145
Germany		400		230
France		510		292

CHAPTER VIII

PRODUCTION

What is Production?

In Economics *Production* needs a very careful explanation as it is used in a much more precise and wide sense than that ordinarily understood by a layman. Production is that branch of economic activity which is concerned with those activities of man which are directed towards the satisfaction of his wants by changing the form or arrangement of matter. It should be remembered that in this natural world, as the various physical sciences teach us, man cannot create new matter; he can only more or less change the form or arrangement so as to adapt it better for the satisfaction of human wants.

An illustration from the ordinary business of life will make the meaning still clearer. For example, we are accustomed to designate carpenter as the producer of a table. But, a little reflection shows us that he has not actually produced the table but only re-arranged the form of the piece of wood by cutting and fashioning it with his tools so that it becomes more useful (or, possesses greater utility) than it was in its original state. The carpenter with all his might cannot create wood. It is a natural product which in its original state cannot serve the purpose of a table, but the carpenter has produced those quantities of utilities which have the capacity to satisfy a want. The carpenter, therefore, speaking more scientifically, is the creator of utilities and not the producer as he is ordinarily designated. Man's work, therefore, consists not in creating new matter, but in creating utilities.

The creation of utilities or production may take several forms as indicated below.

(i) *Form Utility*. When a carpenter makes a table out of a log of wood or a tailor cuts from a roll of cloth pieces of required shape and size and sews into a shirt, they are said to have brought about a change in the form of wood or a roll of cloth respectively and created form or shape utility in them.

(ii) *Time Utility*. Not infrequently the traders purchase and stock large quantities of agricultural produce at the time of the harvest and sell it after a few months when relatively there is a scarcity of food materials at a higher rate thus reaping a profit. In such a case they are called to be creating time utility. To say that the trader or a merchant is not a producer is quite fallacious. He is producing utilities just in the same manner as the person engaged in farming, rubber-growing, coal-mining or fishing etc. The only distinguishing feature is that the latter adds form utilities to the material on which he works upon and the former adds utilities of time.

(iii) *Place Utility*. In creating place utility the person gives an additional utility to commodities by removing them from a place where they are less wanted to a place where they are more wanted. For instance, when a village trader transports wheat from an area of plenty to an area of scarcity, he is designated as the creator of place utility. In transporting the commodities from one place to another their value is increased. Thus the timber of the forest may be of little value until transported to the place where it is wanted by the consumers.

(iv) *Service Utility*. Similarly, when a musician plays melodiously upon his piano or an actor exhibits his histrionic art, they are said to be doing some serviceable work, namely that of giving pleasure to the audience. Such a kind of effort goes by the name of service utility.

Thus, production may be defined as the creation of utilities by the application of men's mental and physical powers to the materials and forces of nature. In the economic sense of the word, all those who aid in the production of utilities or bring about the satisfaction of man's wants such as landlords, farmers,

artisans, manufacturers, merchants, railwaymen, soldiers, sailors, the domestic servants, actors, musicians, agents, bankers and teachers are all producers; there are, however, differences in the nature of work done by each.

The Agents or Factors of Production

It is already known to us that without some physical or mental exertion we cannot produce wealth and bring about the satisfaction of our wants. Besides physical or mental exertion undergone with a view to produce economic utility some extra thing is needed. Even in the most primitive stages of mankind, a savage wants food but three things are necessary before he can obtain it:—(i) he must find out the place where he can catch off wild birds or animals for his food; (ii) he must make the required effort of going to forest to snare them; and (iii) he must be provided with the necessary weapons or implements of the chase. Similarly, a blacksmith must possess a smithy, necessary muscular strength to work upon his materials and some tools like hammer, anvil, and blast furnace at his disposal. A potter, also, must provide himself with a house where he can carry on his work and make the required effort of digging and bringing the clay from the river-side and putting in necessary labour and skill for the making of pots and provide himself with a wheel, a stick and a thread, etc., which are needed in the manufacture of earthenwares. In all these illustrations land, labour and capital are needed in more or less degree without which production would have been impossible.

Earlier economists have generally spoken of three factors contributing to production, viz., Land, Labour and Capital; but with the gradual evolution of industrial organization the number of the agents of production has gone on increasing until we have now five in all.

1. *Land.* Under the term 'land' the economists include not only the surface of the earth, soil or cultivable land, but also all those powers and material resources found below or above the surface of the earth, provided freely by nature for

man's aid in the process of production. "By land," says Marshall "is meant the whole of the material and the forces which Nature gives freely for man's aid, in land and water, in air and light and heat."

2. *Labour.* Labour as an agent of production includes all those human exertions, physical or intellectual, which are undergone not for their own sake but in expectation of some economic reward. Hence, the labourer may be a physical labourer who uses his muscular power or an intellectual labourer who uses his intellect or who uses in varying degrees both the faculties.

3. *Capital.* Man at a very early stage realised that he could get little from nature with his unaided hands. He did require the aid of tools and implements in carrying on production and thus capital came to be recognised as the third agent of production. By capital we understand that part of a man's wealth which has been saved and is employed for the production of more wealth. We define "capital as all wealth (other than land) which is used or is intended to be used for the further production of wealth." Machines which are the results of human effort aid in the production of wealth and, therefore, are capital. The reaping hook of a farmer enables him to increase his production and his capacity for output and is, therefore, capital.

4. *Organisation.* With the growing size and complexity of business, introduction of division of labour, machinery and large-scale production, organisation came to be recognised as a separate and important agent of production. Organisation refers to the superintendence of land, labour and capital for the work of production. The main function of the organizer is to see whether the various factors of production are co-ordinated and directed in such right proportions as to yield maximum of result with the minimum of expenses of production. Indeed a careful analysis would reveal that the work of organization is nothing but a kind of labour, but it is such an important type of labour without which we cannot make much headway in the

production of wealth; hence, it has been recognised by economists as a separate and independent factor of production.

5. *Enterprise.* With the creation of mammoth factories involving the unimaginable intricacies of the forms and methods of production, the expansion of the markets as a result of the remarkable improvements in the cheap and facile means of communication and transportation and when the commodities began to be manufactured for the needs of the consumers in the distant quarters of the world, the organiser could not discharge his functions efficiently and successfully viz., that of co-ordinating the different factors of production and assuming the risk incidental to the business, and, therefore, the fifth agent of production known as the entrepreneur came to be recognised by economists as a quite distinct agent of production. Although, the risk is inherent in every form of productive effort and in every stage of human life, yet risks incidental to modern industry and trade are very important and their worth seems to be growing in importance with every increase in the intricacies of the industrial organisation. The person who assumes the risk of a business is called entrepreneur (from the French, *entreprendre*—to undertake) or enterpriser. He is also known as the venturer, or the captain of industry. The chief difference between the functions of an organiser and an entrepreneur is that while the former brings into harmonious activity the resources of land owners, labourers and capitalists for the purpose of production, the latter undertakes the risk and responsibility of profit or loss and conducts the general policy of the business, the details of the management being assigned to salaried managers and superintendents. An organiser may or may not be an entrepreneur. Thus, in a private business the organiser himself is the risk-taker but in Joint Stock Companies the risk is borne by the shareholders and not by the organisers who are merely paid managers. In a Co-operative Producer's Association all the workers of the society are entrepreneurs as all of them combine to undertake the joint responsibility of the business.

The reader must not be led away by the idea that in the production of wealth, man requires the services of all the factors of production. This is not so; it depends upon the quality of profession he is following. For example, when a dexterous musician delights his hearers by his captivating songs, he only requires a standing room and the necessary labour in modulating his voice without standing much in need of capital or organisation. Again, in spite of their presence in the production of different kinds of goods and services, the proportion in which they are combined is not the same. In the production of some goods we find a larger amount of labour, capital and organisation and a small amount of land while in others the process is reverse and we find a large proportion of land to a very small amount of labour, capital and organisation.

Essential Factors of Production

The factors of production are ultimately-reducible to two, viz., (i) Land, and (ii) Labour, which are the essential factors of production and without which no production of wealth is possible. Capital is merely the joint product of land and labour, whilst organisation is a form of specialised labour. Consequently, land and labour are described as the *primary* agents of production in contradistinction to the *secondary* or *derived* factors—capital and organisation.

‘Of Nature and Man, Man is the active agent and Nature the passive one.’ Nature in itself is not a producer of wealth it is only by the application of labour to Nature that wealth or economic goods are produced. It is the man that forces her to yield her treasures. Therefore, Man is more important than Nature. “From every point of view,” says Marshall, “man is the centre of the problem of production as well as that of consumption.” But it should not be supposed that as capital and organisation are only secondary factors of production, therefore, they are not at all important. In fact, capital has existed since times immemorial and is the greatest force of modern economic processes. It is really difficult to imagine the nature of the work

put forth by a worker without the aid of capital. The same may be said of organisation which has become indispensable to the modern economic life, as it undertakes the co-ordination and harmonisation of the other factors engaged in productive enterprises.

Efficiency of the Factors of Production

Before attempting to find ways for the efficiency of the various agents of production, it is worth while knowing what efficiency means. By *efficiency* we mean the ability or capacity to achieve larger amount of work, or better kind of work, or both with comparatively minimum of trouble and expense. The better the output of a factor, quantitatively or qualitatively, or both, the greater is its efficiency. The efficiency of a factor is also considerably increased by a proper combination of different factors under good organisation and as such the efficiency of the various factors is interdependent. In the present stage of progressive economic society when human wants and desires are increasing by leaps and bounds, it should be the duty of all to seek ways and means of improving the efficiency of the different factors of production in order to bring about a greater economic welfare of the growing populations. By an inventive genius and an assiduous effort of mankind, the efficiency of the factors of production can be enhanced to a very great extent.

We have already seen that man derives his sustenance by exerting his physical and mental powers on materials furnished by nature. He, by harnessing the winds and the water and other elements of nature, has greatly added to his own productive power. The efficiency of land is judged by its productivity which can be considerably increased with better application of labour and capital, the introduction of scientific processes of cultivation and an ample provision of irrigational facilities and rapid and cheap means of communication and transport. It is with these skilful devices that barren and dreary rocks have been converted into delightful fields rich with luxuriant vegetation and bountiful harvests. Besides, a proper conservation of

natural resources together with their better utilisation so as to yield additional production of goods and services with relatively cheap cost will certainly count as an increase in the efficiency of land factor. But unless the labour factor is highly efficient and organised, it is impossible to utilise the natural resources of a country in the best possible manner.

The efficiency of labour can be increased by imparting to the workpeople a practical and sound system of general and technical education. Physical strength and endurance, temperance and trustworthiness, skill and alertness, quick perception and comprehensive mental grasp, strength of memory and power of adaptation, hopefulness and resourcefulness—all these good qualities which can be acquired through good nourishment, training, experience and social progress minister to the efficiency of labour. Secondly, in what manner labour is organised and directed counts much in its efficiency, for if it is judiciously organised and carefully directed it is bound to become much more efficient than it is otherwise. The efficiency of capital can be enhanced by a judicious use; it should be directed in right channels and should not be invested at any cost in risky and hazardous ventures. It is also improved by the invention of labour saving tools and machines, by the facile credit system which enables the rapid exchange of goods with greater ease and facility. Capital should have perfect mobility in the money-market. Organisation is the soul of modern industrial enterprise, as the actual work of production and bringing into full play the resources of landlords, labourers and capitalists fall on the shoulders of the organiser. On his skill, intelligence, resourcefulness and faithful services depends the economic utilisation of the natural resources and ultimately the well-being of the community.

CHAPTER IX

LAND

Definition of the Term

The connotation of the term 'land' is much wider than that understood by a layman, who understands by it merely the surface of the ground. But economists by 'land' mean not only the surface of the land but also the materials and the forces which nature provides freely for man's aid in land, water and air including such things as minerals, mountains, forests, rivers, lakes, waterfalls, sunshine, rains, wind or water-power, gravity and magnetism and the forces of the tides. Some economists have preferred to call this factor as the Gifts of Nature. But it has become common to use the word 'land' because Nature has many shades of meaning in ordinary use while land gives a definite idea if we remember that *it includes all what is below the surface and what reaches the surface from above.*

The chief distinguishing feature of land from all other factors of production is that, whereas the quantity of all other factors can be increased or decreased at will, this is not possible with the supply of land. We cannot produce with all our scientific contrivances more coal than what already exists in the bowels of the earth, however, urgently we may want it. Again, an agriculturist must remain content with the amount of sunshine or rain reaching his land by natural processes. Similarly, the area of the earth's surface is absolutely fixed and no human agency can increase or decrease it. This inelastic supply of land is one point which more than any other distinguishes it from all other factors of production.

What Land does for Production?

Land is indispensable, directly or indirectly, to all our

economic activities. It is one of the primary factors of production rendering us three distinctive services:—(i) it furnishes standing-room, without which nothing can be accomplished. It is required for carrying on all our economic, social and political activities, that is to say, for residence and habitation, for conducting gigantic industrial operations and for constructing railways, roads and canals which are of no mean consequence in the creation of different forms of wealth; (ii) it contains those elements such as air, heat, light, water, seasons, varying temperature and many other things which are essential for the continuance of human life. It also possesses those elements which are essential for plant life thus rendering us those vegetable products which make our sustenance in this world possible; and (iii) it yields from underneath the surface the rich mineral products such as coal and iron, copper and zinc, manganese and petroleum, gold and silver, and fish and pearls.

All lands are not of equal value or importance; some lands are admittedly more useful and fertile than others. The farming lands are capable of extreme differences both in fertility and in advantage of situation. Some parts of the earth's surface are too well-known for their barrenness and aridity such as the bleak, treeless and bitter-cold Greenland and the waterless Sahara Desert; whereas, on the other hand, we have such fertile tracts as the Indo-Gangetic Plains of India or the Red Basin of China. Among the factors which determine the relative importance of land are the natural fertility of the soil, the facilities of transport and communication, patronage of the court, sanctity of pilgrimages, and the growth of industries, trade and commerce in proximity to the area in question.

Extensive and Intensive Cultivation

The cultivation of land, usually called farming, may be of two kinds: (a) Extensive, or (b) Intensive.

Extensive cultivation is that system of cultivation in which we economise the use of labour and capital and use land as a free gift of nature, as far as it is profitable. In this system of

farming if the farmer wants to get more produce, he takes recourse to new plots of land of inferior qualities instead of devoting his successive doses of labour and capital on the same plot of land. This type of cultivation may be noticed in newly developed countries such as Australia, Canada and the United States where extensive areas of land are available at exceedingly low prices but labour and capital are scarce and dear. The farmer cultivates the plot until its growing properties are exhausted, leaves it fallow in order to recuperate its lost energies and takes fresh plots of land into cultivation. In such countries where land can be had plentifully and cheaply labour is economized because the land is limitless and population is scanty.

Intensive cultivation is that system of cultivation in which we economize the use of land, as far as it is practicable by devoting successive doses of labour and capital on the same plot of land. This type of farming is mainly practised in those countries where the available area of land is limited, the population is extremely dense, and agriculture forms the chief basis of the subsistence of the inhabitants. To satisfy the increasing demand of the growing population, the cultivator utilizes every inch of ground to its best advantage, puts in artificial chemical manures to recuperate its lost properties, adopts the scientific principle of rotation of crops and by the application of scientific machinery makes deep ploughings to secure the maximum yield from each acre of land. In extensive cultivation the produce is obtained more with the help of land, as the farmer's labour spreads over a larger area and less with the help of labour and capital; whereas, in the intensive system of farming it is procured at a greater expenditure of labour and capital with a limited quantity of land but in both cases margin of cultivation falls.

In India, owing to her great density of population and its main subsistence on the agricultural industry, nearly every acre of cultivable soil has been brought under the plough and as such there is very little or no further scope for extensive cultivation. So we are obliged to practise intensive cultivation

in order to meet the increasing demand of the growing population. In Burma, for example, extensive type of cultivation is practised as the land available is abundant and can be had at almost no rent while labour and capital are very dear and scarce. But owing to a variety of reasons given below, the Indian cultivators are handicapped to carry on intensive cultivation to its fullest extent:—(i) The endless subdivision and fragmentation of holdings, as a result of the laws of inheritance found both in the Hindu and Mohammedan laws by which the ancestral property is parcelled out equally among the heirs, makes farm cultivation impossible. The holdings owned by Indian cultivators are small and scattered with consequent absence of all those economies which accrue from large scale farming; (ii) he practises farming with minimum of capital, as a result of which he cannot make any permanent land improvements to increase the productivity of his lands; (iii) dearth of water supply and the sole dependence on rainfall; (iv) in spite of his skill, honesty and industry, the Indian cultivator due to his conservative nature still continues his cultivation with unscientific and extravagant methods and fails to appreciate the new improvements in the art of cultivation; and (v) a complete absence of organised markets for the sale of rich and valuable crops is also a check to the intensive cultivation in India.

Transportation and Agriculture

There is a very close connection between transportation and agriculture. The cheaper and quicker means of transportation like railways, steamships, and omnibuses have a tendency to enlarge the agricultural areas and bring distant fertile lands into the markets. As a result of their introduction many distant fertile lands have been brought under cultivation for the simple reason that the capacity of these lands is so potential that their yield can easily afford to pay transport charges and yet leave an income greater than those of the inferior land adjacent to markets. Consequently, whenever new and fertile lands are discovered and the cheap means of transport being

available, agriculturists have a tendency to rush towards those areas abandoning their inferior plots of land.

Secondly, in consequence of the availability of the cheap means of transport the character of agriculture also undergoes a complete change. Formerly, before the opening of railways, agriculture was of a subsistence type, that is to say, only those food grains were produced which were demanded by the people of the village or of some adjacent towns. But, now, agriculturists have diverted their labour and capital more and more towards the raising of commercial crops at the expense of food-crops. Thus with the introduction of the cheap means of transport and communication market grows wider and wider in its extent, volume of trade expands, demand for food as well as for commercial crops considerably rises, and prices of agricultural produce tend to rise and equalise over different markets.

Thirdly, the size of cultivation also undergoes a change; people are induced to cultivate bigger plots of land than before due to the facilities provided by the cheaper and quicker means of transport.

Effect of Nature on Production

The important role played by natural resources in determining the economic life of a nation cannot be over-emphasised. Although man has acquired control over the forces of nature by harnessing them into his services, yet his economic progress depends still to a considerable degree upon the materials and forces of nature. Howsoever, people of a country may be quick and intelligent, yet without having the bounties of nature they cannot make much headway in their economic prosperity. Thus, natural resources have a profound bearing on the productive capacity of a country and its people.

1. *Relief*. Relief exercises a permanent influence on the economic life of man. The relief of the land which includes mountains, hills, rivers, plains, valleys and forests determines the kind of climate and production of raw materials which are directly dependent on the soil. In the hilly tracts, agriculture

and industries seldom flourish owing to the absence of cheap and rapid means of transport and communication with the result that the main occupation of people in such tracts is either grazing of domestic animals, or lumbering. The Himalayas act as a reservoir to feed the great rivers of the Northern Plain, protect it from cold north winds and check the vapour-bearing winds that come from the Indian Ocean. The alluvial soil of the Indo-Gangetic Plains is so fertile that only a little amount of labour is needed to produce sufficient corn for the people. Owing to the heavy rainfall, tropical climate, numerous navigable rivers with a network of canals, flat surface of the land making the means of transport and communication both easy and quick, and the wonderful richness of the alluvial soil, the plains are the most thickly populated areas of the world. These are the few main facts which go to make India primarily an agricultural country.

2. *Climate.* The effect of climate on the vegetation and the occupation and density of population is very decisive. In tropical countries usually the rainfall is plenty, the soil is rich and the vegetation is always green and luxuriant. Temperature and rainfall determine the nature of vegetation and upon vegetation depends, directly or indirectly, the animal life. Climate also determines the occupation of the people. The chief occupation of an Eskimo living upon the perennial snow-covered shores of the Arctic Sea is hunting and fishing; the people of India and China are generally agriculturists as the temperature is high and rainfall plenty. Climate also influences the industrial development of the country.

3. *Rainfall.* The presence or absence of rainfall, which solely depends upon the land relief, greatly affects the productivity of an agricultural country. The unproductivity of the Sahara Desert, a waterless ocean, can be safely ascribed to the scantiness of rainfall. The dearth of rainfall has made the western part of the Aravalli Hills an arid waste. Rain also loosens the soil on which it falls, carries sand and mud called silt from one place to another and renews the soil by spreading

out a fresh deposit of silt over the old layers of it.

4. *Soil.* The upper layer of the solid earth consisting of weathered particles of rocks together with some organic matter is termed soil. Besides other factors like the rainfall, slope of the land, situation, etc., the soil itself has a great influence upon the growth of crops as it is from the soil that the plant gets most of its food elements such as nitrogen, potash, calcium, water, etc. Six conditions are absolutely necessary before the plants can flourish in a soil. It must supply (i) an adequate amount of plant food, (ii) water, (iii) air, (iv) suitable temperature, (v) sufficient root room, and (vi) it must be free from harmful substances.

Of the above factors soil aeration and moisture are the first to be considered, as the plant being a living object requires air for its necessary respiration and so the exchange of gases is unavoidable in the soil to maintain the life of the plant. The air in the soil is urgently required by the small organisms that are concerned in the decomposition of organic matter i.e., nitrification and fixation of Nitrogen directly from the atmosphere. The idea of the Indian farmers that the best yield can be obtained through the application of a larger quantity of water is misleading. Upto a certain extent moisture increases the yield but beyond that it interferes with the activities of the bacteria, soil aeration and retards the chemical changes and brings about the deposition of alkalis.

Moisture has its action upon the physical, chemical and biological phases of the soil. The plants cannot take their food except in the form of solution. Water acts as a moderate on the soil temperature and the clay soils are cooler than the loam or sandy soils because of the higher water-holding capacity of the former. It is clear that the sandy soils being warm are very much liked by the vegetable gardeners who always try to put their commodities in the market as early as possible in the season.

The temperature of the soil is of considerable importance because it influences the germination of the seeds, the growth of plants at all stages, accelerates the chemical changes and the

ripening of the crops. It is by means of the roots that the plants absorb their food from the soil and the soil which provides a sufficient room for deep root formation is generally very productive. The last but not the least important factor in the production of crops is the absence of injurious salts or substances in the soil.

The above six factors determine to a great extent as to which crops are suited best to any particular type of soil. In the black cotton soils of India which are deep and rich in organic matter and store a high quantity of water and also well-aerated due to good drainage, we find that crops like maize, cotton and poppy flourish well. In the soils of Bengal which have a heavy soil at the bottom and the temperature is often high the rice and jute crops flourish best. In the eastern districts of the United Provinces where the soils are rather heavy and contain moisture, sugarcane thrives best. In the Punjab, we find, wheat grows well. In the clayey soils which retain water for a longer period of time by preventing it from freely descending into the earth those crops can be raised which require a greater amount of moisture for its growth. Thus by carefully studying the three phases of the soil—the physical, chemical and biological—it would be possible for the agriculturists to take the largest yield of crops without injuring the soil fertility.

5. *Coast-line.* It also greatly influences the character and occupation of the people. The coast-line of Great Britain contains numerous indentations and good natural harbours which afford splendid opportunities for international trade and make the nation the most enterprising and sea-faring race of the world whereas, the coast-line of India is regular and remarkably deficient in good harbours which have proved a great obstacle in the development of the sea-borne trade.

6. *Situation.* From the point of view of trade and commerce situation plays a very important part in the productive capacity of a country. The commercial superiority of the British Isles is due to their fine position enjoyed by them. They lie in the centre of the Globe so that they are within the reach

of all the great markets of the world. Their insular position besides facilitating commerce also tends to make them more energetic, enterprising, industrious and a sea-faring race. India also enjoys a maritime position of considerable importance in the markets of the world because it lies in the centre of the Eastern Hemisphere. All the trade carried on between the Western countries must pass through the harbours of India. The opening of the Suez Canal has tremendously increased the importance of India by establishing commercial relations with European countries facing the Mediterranean.

CHAPTER X

NATURAL ENVIRONMENT AND RESOURCES OF INDIA

In the previous chapter it has been already stated how conspicuous are the natural resources in determining the vegetation, density and distribution of the population, and the occupations of the people. In fact, the physical environment is the basis of all economic activity, to which India is no exception. In this chapter we will, therefore, start with an investigation into the economic conditions of India by having a brief description of her natural environment and resources.

Geographical Location

India from an economic point of view occupies a highly favourable situation as it stands almost at the centre of the Eastern Hemisphere and commands trade routes running in all directions. The country is bounded on the north by a long and lofty chain of the Himalayas, on the east by Burma and the Bay of Bengal, on the south by the Indian Ocean, and on the west by the Arabian Sea, the Sulaiman and the Hindu Kush mountains. Thus situated, India forms a unit by itself, separated as it is by nature from the rest of the world. And within its own boundaries, the country exhibits so many remarkable differences in physical features, fertility of soil, climate, products, people, language and religion that it is often remarked as a continent rather than a country. The total area of the Indian Empire exceeds 1,800,000 square miles. The length of the country from north to south is about 2,000 miles and 2,500 from east to west. India is thus a world in herself, being fifteen times as large as Great Britain and equal to the whole of Europe

excepting Russia. It maintains a population of 35·3 millions or, about 1/5 of the total world population which is estimated to be 1850 millions.

The coast-line of India, which is about 5,000 miles long, has a few natural indentations and no good harbours and sea-ports. The inlets of India get choked with sand and become so shallow that they cannot serve the purpose of navigation. The important ports of India are Bombay, Karachi, Goa, Madras, Vizagapatam, Calcutta, Chittagong and Rangoon. Bombay is the only good natural harbour of India. Madras is an artificial port constructed at enormous expenses. The project of creating a harbour at Vizagapatam to supply an outlet for the undeveloped resources of a large fertile land adjacent to the east coast of India at first formulated by the Bengal Nagpur Railway, is now undertaken for construction by the Government of India. Calcutta has a well-situated harbour but the channel of the Hoogli is regularly dredged in order to keep it deep enough for the steamers. Rangoon is a natural harbour of Burma. Six-sevenths of India's foreign trade is confined to the five ports of Calcutta, Bombay, Rangoon, Madras and Karachi. Thus, from the point of view of location, there are very great possibilities of India's becoming a great distributing and clearing centre of trade if land and sea-routes are fully developed and properly utilised. At present the total volume of trade cleared by these ports exceeds Rs. 9,000 crores.

Climate and Rainfall

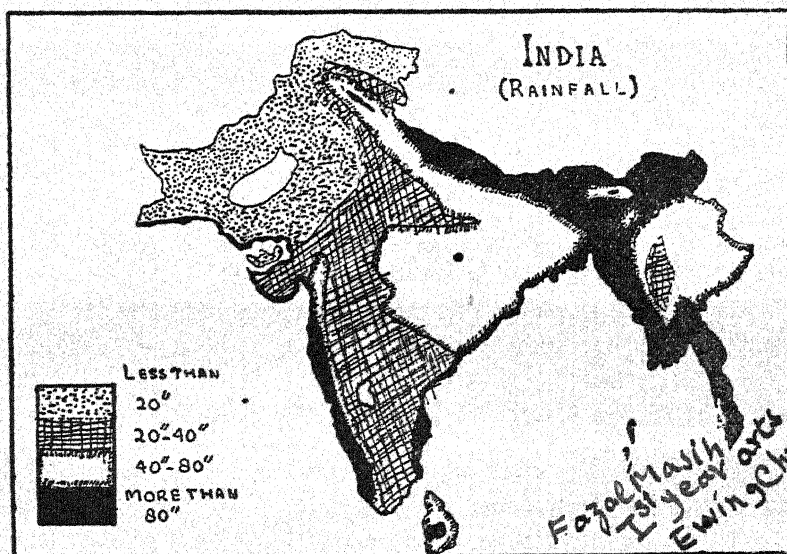
From the climatic point of view India may broadly be divided into two divisions: (i) the Northern India which lies in the Temperate Zone, and (ii) the Southern India which lies in the Torrid Zone. The former region exhibits greater variations in climatic conditions in different parts of the year and in different provinces. In Bengal and Assam, the winter is mild and the summer moderately hot. But as we move westward the severity of heat and cold gradually increases. In the north-western part of the United Provinces and the Punjab we experience extreme

heat and scorching winds like the blast of a furnace and the bitter cold in winter. Again, Upper Sindh, the Punjab and western Rajputana are extremely dry, while the atmosphere of Assam and Bengal is always saturated with moisture.

In the Southern India the variations of temperature at different seasons are comparatively insignificant. It is warmer on the west coast than on the east, and the maximum temperature is found round the head of the Kistna river. The coasts have a smaller range of temperature and the atmosphere there is generally cloudy. The climatic conditions influence the character and the physique of the people to a considerable degree. Hard work and severe strain are very detrimental under our climatic conditions; certain 'tropical diseases, which are very much peculiar to India, take frequently a heavy toll of population.

The rainfall of India primarily depends upon the Monsoon climate which occurs around the Indian Ocean, especially in India and Burma. The rainy months of India can also be divided into two distinct divisions: (i) the South-West Monsoon which blows from the middle of June to the middle of October. It is divided into two branches, one proceeding from the Arabian Sea, the other from the Bay of Bengal. The Arabian Sea Monsoon strikes the Western Ghats, gives them the heaviest rainfall about 100 inches in the year, crosses the Western Ghats only to deposit a little rainfall to the Deccan Table-land. A part of the vapour-laden clouds not checked by any mountains on the way comes to the Himalayas and the minor branch of the Arabian Sea Monsoon goes northwards and travels over Kathiawar, Sindh and Rajputana but owing to the high temperature and the absence of any mountainous regions it does not give any rain to these tracts. The main cause of poor rainfall in the interior of Peninsular India is that it lies in the 'rain-shadow' of the Western Ghats. The Bay of Bengal Monsoon strikes with a great force the hills of Burma and Assam and torrential rainfall is experienced by these provinces. Cherapunji in the Kashi Hills in Assam receives the full force of the Monsoon and

experiences one of the heaviest rainfalls in the world amounting to 523 inches a year. The Monsoon being checked by the lofty heights of the Himalayas travels along the Ganges Valley getting weaker and weaker as it travels westwards; (ii) the North-East



or winter Monsoon which turns round in January and February from the snow-covered tracts of the Himalayas and the Iranian Table-land collects some moisture and produces rains on the Lower-Himalayas, the Punjab, the United Provinces and after crossing the sea deposits rains on the Madras coast in Southern India.

The Monsoon rainfall is very unequally distributed. It is as high as 523 inches a year in the Cherapunji Hills and as low as 7 inches a year in Sindh, Rajputana and the South-West Punjab. Again, the Western Ghats receive 100 inches of rainfall from the South-West Monsoon; the centre of the Peninsula gets only 20 inches and in South Madras it is only 5 inches. The rainy season is, on the whole, regular but the rains are uncertain as regards quantity. In some years there are torren-

tial rainfalls, whereas in others there is either a delay in the breaking out of the Monsoon or a partial failure of rains inflicting terrible miseries upon the poor cultivators. The importance of the Monsoon rainfall in the economy of a predominantly agricultural country like India cannot be over-emphasised as one inch more or less of rainfall is the only difference between the prosperity and the adversity of the agricultural masses. Perhaps in no other region of the world does the rainfall enter so much into every aspect of life as in India. It not only affects agriculture proper, but trade and commerce are largely dependent upon it while the finances of the country are closely bound up with the success or failure of crops. In fact, the general prosperity of the country depends upon the Monsoons and, the more so, upon the South-West Monsoon which accounts for nearly ninety per cent of the total rainfall.

✓ GEOGRAPHICAL DIVISIONS OF INDIA

Geographically speaking, India may be divided into four principal natural divisions:

- ✓ 1. The Himalaya Mountain Region.
- ✓ 2. The Indo-Gangetic Plain.
- ✓ 3. The Deccan Plateau.
- ✓ 4. The Coastal Strips.

1. The Himalaya Mountain Region

The Himalayas or the *abode of snow*, some of whose peaks rise to a height of more than 29,000 feet, spread over a length of more than 1250 miles from the Indus in the north of Kashmir to the Brahmaputra in Upper Assam and form the impregnable northern boundary of India. They are not a single range but contain three parallel ranges in which every possible variety of climate and vegetation is met with. (i) the Inner Range runs in a sword-like curve and owing to its lofty heights it is perpetually found covered with snow which only melts during the Summer and supplies water to the rivers when agricultural

lands of India are most thirsty. It also checks the cold dry winds that blow over the tablelands of Tibet from coming to the Indo-Gangetic Plain; (ii) the Outer Range runs parallel to the Inner Range. Only some parts of it which are exceedingly high are found covered with snow, while the rest of it is covered with an inexhaustible store of forest trees; (iii) the Sub-Himalayan Range consists of detached ranges of low hills and is separated from the Outer Range by wide and deep valleys. The western off-shoots of the Himalayas run from north to south which consist of the Hindukush, the Sulaiman and Kirthar mountains, thus shutting in the plains of India from Afganistan and Baluchistan. But there are many passes along these ranges, the chief being the Khyber, the Kurram, the Gomal and the Bolan, through which India's land trade is carried on with Afganistan, Persia, etc., and as such their economic significance is very great. The eastern off-shoots of the Himalayas contain no such important passes, but there are some trade routes across the Shan hills between Burma and China. Apart from their political significance as an impregnable barrier and their effect on the moral and religious ideals of life of the people, the Himalayas have considerably moulded the economic life of the country possessing the following economic advantages:—

(a) The lofty wall of the Himalayas checks the South-West Monsoon and forces it to deposit moisture on the plains of India.

(b) They are the perennial sources of the important rivers like the Ganges, the Jumna, the Brahmaputra and the Indus which moisten the thirsty lands of the plains and endow the soil with inexhaustible fertility. Not only do these great rivers take their origin from the Himalayas but they are regularly fed in the dry and hot months of the year by water which is got by the melting of snow.

(c) They have been characterised as the region of *white-coal* in India, because they furnish us with an inexhaustible source of potential water-power.

(d) They supply a great variety of animal and vegetable

products. Valuable timber such as Pine, Deodar, Chir, Oak, Sal, Fir, Bamboo, Blue Pine, and Spruce are available in these forests. A large variety of vegetables is also cultivated. Tea is largely grown in Assam, Darjeeling, Dehradun and the Kangra Valley. Many kinds of fruits are also grown especially in Kashmir, Quetta and in the western districts of Peshawar. They are also a storehouse of an inexhaustible supply of fodder. Many kinds of minerals are also found within the bowels of the Himalayas. Wild animals of the chase are not lacking in these forests.

(e) The Himalayan forests exercise a beneficial effect on the climate and temperature; they regulate and conserve the water supply and prevent the soil from being washed away or denuded by flood-rivers in the rainy season.

(f) They provide many health resorts and captivating scenes to the tourists.

(g) Lastly, they obstruct the cold dry winds that blow over the Tibetan Plateau.

(h) In the valley terrace cultivation is practised.

2. The Indo-Gangetic Plain

The Indo-Gangetic plain comprises the valleys of the Indus, the Ganges, the Brahmaputra, and their tributaries. It is a very fertile plain containing more than 500,000 square miles of area.

The whole of the Indo-Gangetic Plain is alluvial i.e., its soil consists of fine mud and sand carried down by the mighty rivers and deposited on the low lying lands. The soil is very fertile and a considerable portion of it is renewed every year by floods. The level surface of the plains makes the rivers flow very slowly, enables the easy construction of roads, railways and canals and facilitates a more even distribution of rainfall, having no impediments to check the flow of the monsoon winds. The eastern part of the plain irrigated by the Ganges and its tributaries and the Brahmaputra is the most productive area. Both are important navigable rivers. Tea, jute, rice, oil-seeds, sugar-cane, millets, barley, cotton, and wheat are the principal crops culti-

vated in this region. It is only on account of the astonishing fertility of the land that it is one of the most thickly populated areas of the world containing above two-thirds of the population of India.

In spite of its high productivity there are some dry tracts in it like the plains of Rajputana, arid wastes in the south-west of the Punjab, and the rainless tracts of Sindh. In such tracts very poor type of crops are cultivated and the population is very scanty. About two decades ago, the Punjab was a semi-desert tract but, now, by canalising the rivers the province has become one of the most flourishing wheat producing areas of India.

3. The Deccan Plateau

This is a rugged plateau which comprises the whole of the peninsula except the narrow coast strips and is separated from the north by the Vindhya and the Satpura ranges. With the Vindhya range as the base, the Eastern and Western Ghats as the two sides, and Cape Comorin as the apex, the plateau resembles a triangle in shape. This region affords many contrasts in vegetation and relief. Instead of being flat and smooth it is a tableland of an average height of 1,500 feet. It is cut into a few deep and narrow valleys through which the peninsula is drained by the Mahanadi, the Godavari, the Kistna, the Cauvery and the Vaigai rivers into the Bay of Bengal and by the Narbada and the Tapti into the Arabian Sea. Its rivers are very rapid and subject to many waterfalls and hence they are of little use for navigation and irrigation.

The soil of the region is not alluvial but rocky and varies greatly in character and fertility. There are porous and light soils on the upland and the slopes of hills, and thicker and darker-coloured soils in valleys. The chief vegetation of the tabeland consists of rich forest trees such as teak, sal, ebony, sandal-wood, cinchona and cocoa-nut palms. The chief agricultural products of this region are cotton, millets, oil-seeds, tea, coffee, tobacco, pulses, rice, spices and sugar-cane. Mineral

products like coal, lime, iron, manganese, mica and gold are also found in good quantities.

4. The Coastal Strips

'The coastal areas of India are the narrow strips of territory formed on both sides of the triangle of the plateau by the wearing down of the edges of this tableland into alluvial coastal plains.' There is only a narrow belt of fertile land between the Western Ghats and the Arabian sea shore, about 40 miles wide stretching from the mouth of the Narbada to Cape Comorin, a fact which makes penetration inland on this side from the sea difficult, and even the Monsoon clouds are compelled to deposit their moisture on the mountainous barrier, making the inland region peculiarly liable to droughts. The vegetation owing to the excessive rainfall and alluvial character of the soil is luxuriant. The principal products are rice, bananas, coconuts, jack-fruits, spices, and cardamom. The eastern coast strip which extends from the Ganges delta to Cape Comorin is considerably broader than the west coast strip. The level surface of the region makes irrigation possible by canals and affords good many facilities for the construction of railways. The region enriched by its rivers provides much low-lying fertile soil, supports a dense population equal to that of the plains of the north. The climate is peculiarly different from other parts of India. It does not receive much rainfall from the summer monsoon but depends to a considerable degree upon the north-east Monsoons which deposit heavy moisture in the winter season.

The Variety of Soils in India

The character and fertility of the soil is very important in the economy of an agricultural country as without a good soil we cannot raise cheap and luxuriant crops. The Indian soil may broadly be divided into three main divisions.

(i) *Alluvial Tracts.* The deep alluvial tracts are the most extensive and agriculturally the most important. They occupy

the greater portion of Sindh, Gujrat, Rajputana, the Punjab, the United Provinces, Bengal, extensive tracts in Assam and Burma, the Godavari, the Kistna and Tanjore districts of Madras, and strips stretching along the eastern and the western coasts of the Peninsula. The alluvial soils differ in different parts of the country as regards their physical and chemical properties. Thus in the north-western India the soils are porous and dry and in some places sandy; in the United Provinces, and Bihar and Orissa they are loamy and in Bengal they are more compact and moist.

(ii) *The Deccan Trap Soil.* The trap soil spreads throughout the Deccan and covers Berar and a greater part of the Bombay Presidency, Hyderabad, the Central Provinces and Kathiawar. On the uplands and slopes of hills the soils are porous and light, and are generally poor, but in the lowlands the soils are more fertile. The black cotton soil occupies the area of the Deccan Trap in undulating or sloping situations, below the general level of the foot-hills. This soil is the outcome of the lava, which comes out with the volcanic eruptions. It is dark in colour owing to its mineral contents, and especially suited to the cultivation of cotton. In summer the soil cracks by which the rain water is enabled to sink in its crevices, a process which proves most helpful in the retention of moisture for many months. It is only due to this fact that the soil is better suited for the *Rabi* crops, as in the rainy season the deep and sticky character of the soil sometimes makes cultivation a bit difficult. But *Kharif* crops are also raised in these soils.

(iii) *The Crystalline Tract.* The crystalline tract occupies the lands of Mysore, a very large portion of Madras and portions of Bombay, Hyderabad, the Central Provinces, Orissa, Chota Nagpur and some tracts of Bengal, Central India and Burma. These soils differ so much from one another in the different provinces in regard to their physical and chemical characteristics that it is hardly fair to put them in one class. They are generally deficient in the nitrates and phosphoric acid.

The productivity of these soils varies considerably; on the uplands they are usually sterile, such as the uplands of Mysore and Madras, and in the lowlands the soil is comparatively fertile. Rice is the chief crop in some parts where facilities of canal or tank irrigation are available. The reddish, brown or yellow-red soils of this formation found in Belgaum, Dharwar, etc., are especially suited to the cultivation of fruit trees, particularly mangoes.

"In the midst of these varying features, one characteristic is found to be common to almost all soils viz., their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity for Indian Agriculture." (P. Banerjee).

The Soil Erosion in India

The cutting away of soil particles by rain is called soil erosion. Several natural agents like the sun, wind, rain, running water, sea, etc., are responsible for the denudation of the land. Heavy rain water, if it is not properly controlled, has a tendency to run off the surface without percolating into the soil towards the drainage lines after washing away the most valuable and fine particles of soil and a large part of the organic matter. Soil erosion is affected by many factors:—

(i) *Concentration of rainfall.* In India during the Monsoons when heavy rainfall beats down on the surface of the earth and removes loose particles of the soil, the formation of deep ravines is an established fact.

(ii) *The general slope of the ground.* Erosion has more pronounced effects in the peninsular parts of India specially the Central Provinces and Bundelkhand than in the alluvium of the Ganges, where the ground is flat. Nevertheless it is always taking place when the rain falls in torrents. In the plains owing to the flatness of the surface we meet with sheet erosion, in which the fine soil particles are washed away without being noticed from every part of the surface of the fields.

(iii) *The nature of the soil.* On similar slopes exposed

to the same rainfall, light open soils lose more silt than heavier loams. Heavy black cotton soils, which swell up when wetted, are probably not denuded so readily as the lighter soils found in peninsular India. The dry tracts are also affected by the water that rushes over them.

The Great Loss

The annual loss to agriculture as a result of soil erosion is incalculable. The gradual denudation of the soil and the organic matter thereof is the real economic drain in India. The evil consequences of which are to be seen in the south of the Jumna in Bundelkhand, in the deep ravines formed on both sides of the Chambal in Dholpur and Gwalior States, etc., where even armies can safely hid themselves without being found out. Even in the great alluvial plains of India where at first sight the ground seems to be perfectly flat, the damage is considerable. The left bank of the Jumna has lost thousands of acres of fertile land owing to the formation of a mischievous network of ravines, which produce little more than a crop of grass during rainy seasons. In the United Provinces alone the actual total area of these ravines is about millions of acres and is constantly increasing and if unchecked will eventually prove disastrous consequences to our agricultural industry. "Villages," Mr. A. Howards observes, "which at one time were surrounded by fertile fields, now lie in a network of useless gullies." Every year incalculable amount of productive soil is being washed out to the ever-hungry oceans through these ravines. Secondly, as a result of the torrential nature of our rainfall, the water rushes violently along the drainage lines without being soaked by the soil, which has resulted in the lowering of the sub-soil water level, so that the waterlevel of the wells has gone down causing hardships and inconveniences to the agriculturist in a numberless ways. Lastly, water-logging is often associated with erosion which causes a great loss to available nitrogen and a destruction of the porosity of subsoil resulting in the low yield and poor quality of the produce.

Prevention of Erosion

Both water-logging and erosion take place when the run off is not properly managed and the water is allowed to gain velocity and strength on its way to the drainage lines. Some methods are within the easy means of cultivators. They should cultivate their fields during the hot weather before the advent of the Monsoon rainfall in order to prevent them from the cutting action of the rain or the running water. The well-ploughed and thirsty surface of the soil will absorb much of the early rains and check the eroding action of the running water. Secondly, the intensity of the erosion will be lessened on slopy grounds if they are ploughed perpendicularly to the slope. Again, the erosion can be prevented by an afforestation at the head and sides of the ravines as the roots of trees bind the particles of the soil together and their foliage protect the soil from the heavy bursts of rain.

Embankments though absolutely necessary where other methods of controlling the erosion have failed present many difficulties, e.g., heavy expenditures, expert engineering skill, etc. The Indian cultivator is poor and ignorant and too slow to appreciate the value of any change except by actual demonstration. Government advice backed by monetary support is necessary for the successful erection of embankments and drainage projects.

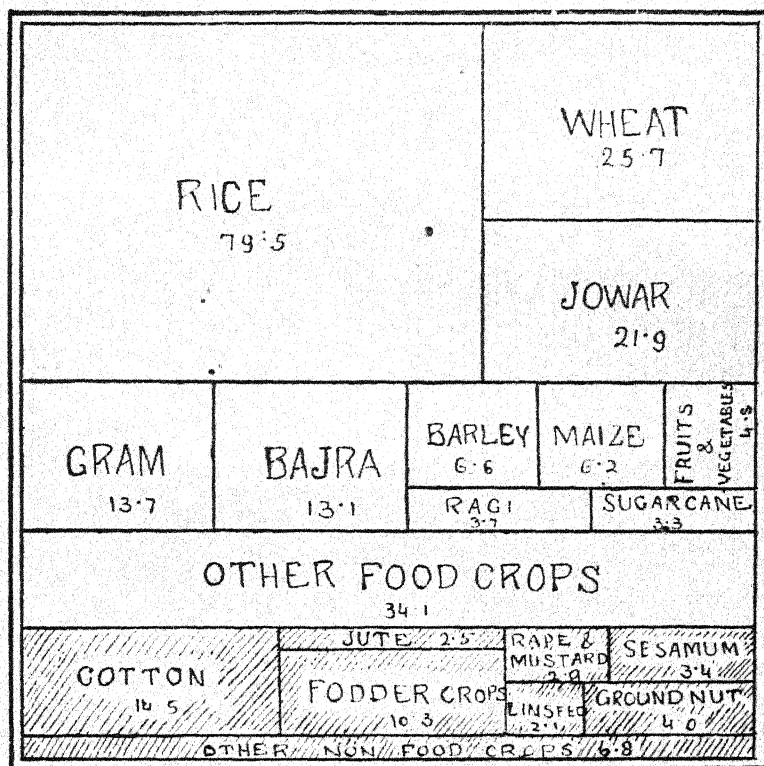
PRODUCTS OF LAND

Area of cultivated and uncultivated land in India

Total area	..	68,76 lakhs acres
Total area in Indian States	..	1,96 ,,
Total area in British India	..	66,80 ,,
Net area cultivated	..	22,69 ,,
Current fallows	..	5,22 ,,
Culturable waste	..	15,42 ,,
Not available for cultivation	..	14,46 ,,
Forests	..	8,98 ,,

Area under Food and Non-food Crops

Total area sown	..	259.1 million acres
Area under food crops (unshaded)	..	212.6 "
Area under non-food crops (shaded)	..	46.6 "

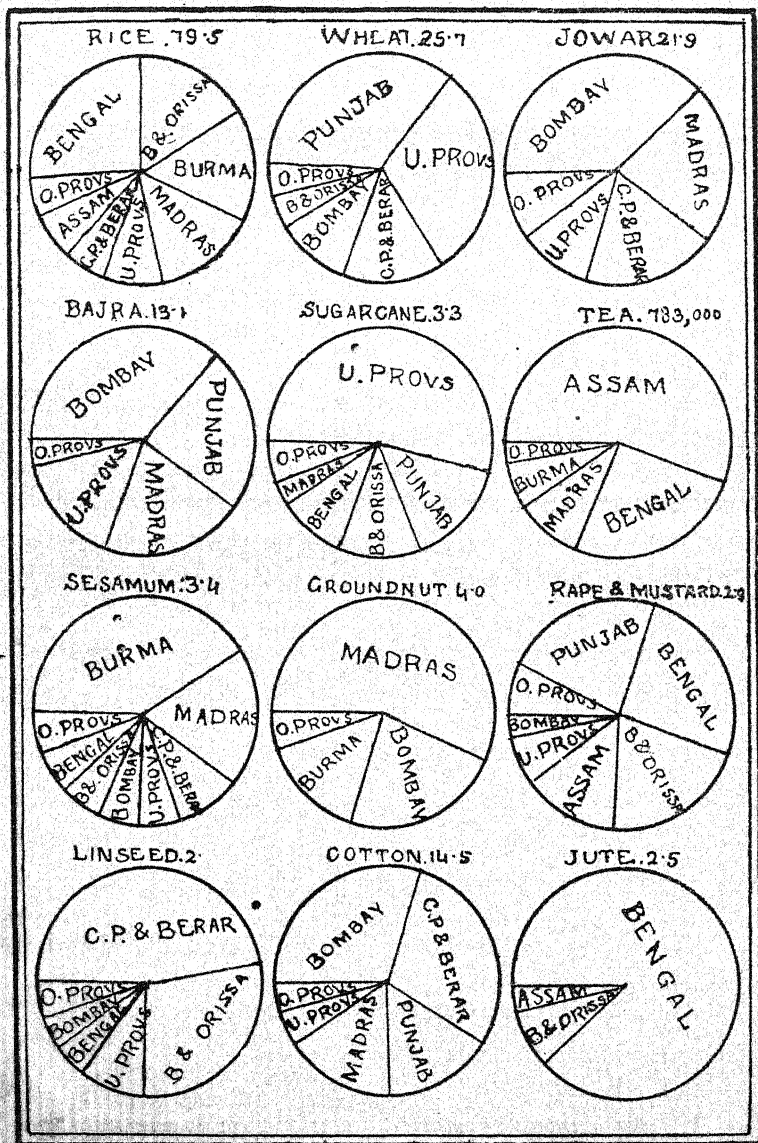


The products of land conveniently be studied under three different divisions:—

1. Agricultural.
2. Mineral.
3. Forest.

1. *Agricultural Products.* Agriculture is the most pre-

Shares of Provinces in the total area (in acres) under principal crops in 1934-35

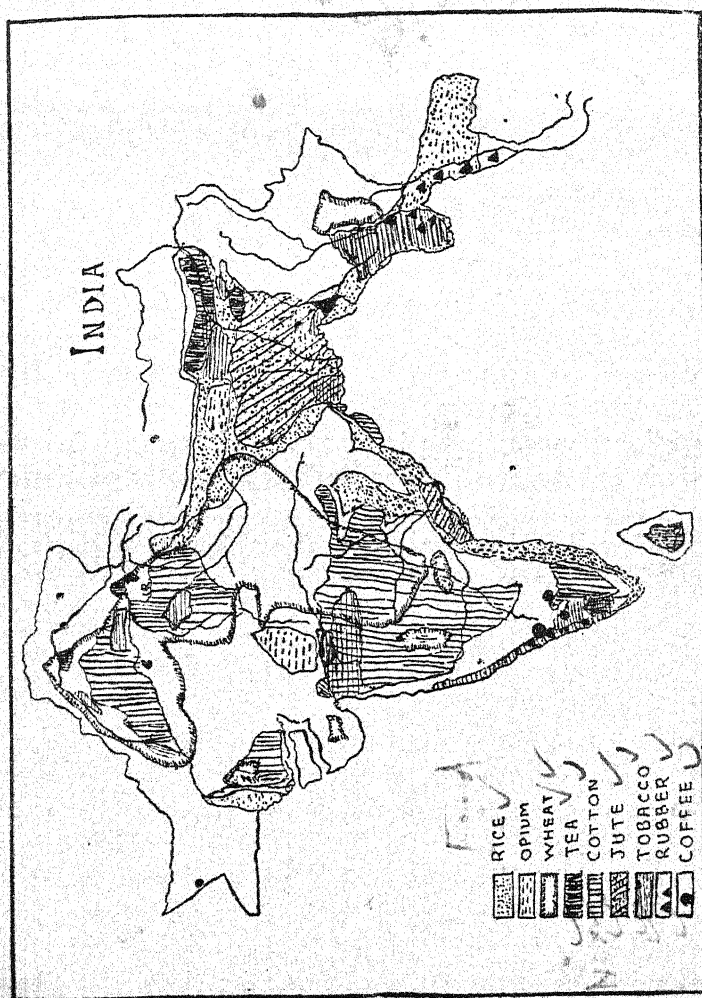


ponderant industry of India; about 70 per cent of her population depends directly on agriculture and of the rural population nearly 90 per cent is directly or indirectly related to this premier national industry. The food crops occupy the most important place among the agricultural products, which cover nearly four-fifths of the total area sown, but the non-food and commercial crops have also evinced a tendency to increase in area owing to its high world prices. The annual cost of the agricultural produce has been estimated at a little lower than 1,200 crores of rupees. There are two crops taken out of the soil in two agricultural seasons, viz., the *Kharif*, or the summer crop, and the *Rabi*, or the winter crop. As the *Kharif* crops require a plentiful supply of water, they are sown at the beginning of the south-west monsoons and harvested between September and October. The *Rabi* crops, which need less rainfall, are usually sown in October and harvested in spring (March and April). During the hottest months of May and June when the whole country is scorched with the western winds, the land is allowed to rest. The raising of crops depends much upon the character and the fertility of the soil.

Agricultural products may broadly be classified under two heads:—(1) Food crops and (2) non-food crops.

A. Food Crops

✓(i) Rice is the principal crop of India as it forms the staple food of the most of the people of the country, and it occupies about 30 per cent. of the total cultivated area. It is an aquatic plant and flourishes most in those areas where climate is hot and damp, soil is deep and fertile, and rains are abundant and assured. The provinces in which rice is grown in large quantities are Bengal, Burma, Bihar and Orissa, Assam, Madras, Bombay and in those areas of the United Provinces, the Central Provinces and the Punjab which receive a sufficient and assured quantity of rainfall. Bengal produces more than the half of the total produce. India's contribution to world production of rice is about 40 per cent. Burma grows rice mainly for export,



while other provinces grow mainly for local consumption. There are innumerable varieties of rice ranging from very fine to very coarse one. In Bengal there are two main harvests. In Madras three crops are raised in one year where canal irrigation is possible. In other provinces there is only one crop, which is a *Kharif* one. The acreage under rice is more than 79.5 million acres with a total yield of about 34 million tons of cleaned rice. The yield per acre compare very unfavourably with the production in other countries. If improvements are made in its cultivation, the value of rice produce would be more than 700 crores of rupees.

(ii) *Wheat* stands next to rice. It covers about 25.7 million acres of land or nearly 10 per cent. of the total cultivated area with a total yield of more than 10 million tons of wheat. It requires alluvial soils, cool climate at the time of sowing, slight rain at intervals, warm and dry climate during the ripening months. Light clays and heavy soil loams are the most suitable for its cultivation. Almost in every province of India cultivation of wheat is practised, but the Punjab, the United Provinces, the Central Provinces, Rajputana, Bihar and Orissa and Bombay produce it in great quantities. The United Provinces and the Punjab account for nearly two-thirds of the total area and three-fourths of the total yield. With the exception of U. S. A. and Russia, India is the largest wheat producer in the world. India exports wheat chiefly to England through the port of Karachi; but in recent years there has been a marked tendency of decrease of wheat exports. The quality of wheat is considerably enhanced by the improved qualities of wheat such as Pusa No. 12 variety, introduced by the Agricultural Department. The total area under improved varieties of wheat is now about 5 million acres. The surplus available for export purposes is never very large. About 15 per cent. of the annual yield goes out of the country chiefly to the United Kingdom. It is estimated that the extension of irrigation, the rapid means of transport and the introduction of better quality of seed will increase the Indian yield of wheat per acre to a great extent.

The average yield per acre in India and in certain other countries is:—

	lbs.
India	636
U. S. A.	846
Canada	972
Australia	714
Argentina	780
Europe	1,146
Russia	636

A sum of Rs. 60½ crores represented the total hypothetical value of the Indian wheat crop based on last year's production, calculated on an average price of Rs.2-6-0 per maund obtainable in the up-country markets.

(iii) Barley is a Rabi crop and is cultivated and harvested along with the wheat crop. It is grown to a small extent all over India but chiefly in the United Provinces and the Punjab. It is used as food both for man and cattle. It is mainly a food crop of the poorer classes and a small quantity is exported outside. The area under cultivation is about 7 million acres.

(iv) Maize requires a warm climate with abundant and frequent rains. In the initial stages of its growth, heavy rainfall is almost fatal; it is sown in the month of June or July with the commencement of monsoon rains and harvested after a lapse of about two months. It is grown practically all over India, but in the United Provinces it is an important crop and forms a staple food of the poor population.

(v) Millets. There are several varieties of this crop, the chief being *jowar*, *bajra*, and *ragi* which are grown extensively in almost every part of India. They are used both by men and cattle and in some of the drier parts of India they form the staple food of the people. They do not need as thorough a cultivation as wheat and are rarely manured, although *jowar* responds handsomely to high manuring. They do not require much water and can even flourish in those areas where the rain-

fall is as low as 20 inches. The crop is generally sown in the beginning of the monsoon, but *jowar* is both a *Kharif* and a *Rabi* crop. It is often grown mixed with the summer pulses, especially *arhar*, which stands in the field for the whole of the year and is harvested along with the *Rabi* crops. *Bajra* is a dry crop and grown extensively in Madras, Bombay, Rajputana, the Central Provinces and in the western districts of the United Provinces. It is the mainstay of the population in very dry tracts of India. *Ragijuar* is the principal food of Mysore, Madras and the adjoining districts of Hyderabad.

✓(vi) *Pulses*. 'They are commonly grown throughout India in great variety and form at once the backbone of the agriculture, since even the present moderate degree of soil fertility could not be maintained without leguminous rotations and a primary necessity in the food of a vegetarian population.' The pulse-crop is believed by agriculture chemists to be a good fertiliser, as the deep-rooted plants deposit nitrogen in the soil thus recuperating the lost properties of the soil considerably. The principal varieties of pulse-crops are *chana* (gram), *arhar*, *urd*, *mung*, *mash*, *masoor*, and *kalai*. They are of universal consumption in India and are chiefly raised in the United Provinces, the Punjab, Bombay, the Central Provinces, Bihar and Orissa, and Bengal.

(vii) *Fruits and Vegetables*. India has so much diversity of elevation, climate, soil and rainfall that there is no vegetable product of temperate, sub-tropical, and tropical zones which cannot flourish here. The importance of fruits and vegetables in the dietary of Indian people who are mostly vegetarians is very great. India grows a variety of fruits such as mangoes, pears, grapes, peaches, apricots, strawberries, etc. There is also grown a large variety of vegetables and edible roots like potatoes, brinjals, cabbages, tomatoes, cauliflower, onions, garlic, ginger, turmeric, radish and turnips. The market for vegetables and fruits is comparatively limited owing to their perishable nature. But it is hoped that with the dawn of horticultural knowledge among the people, development of transport and the provision

of cold-storage facilities, 'a new era of abundant supply of fruits and vegetables' will set in. Condiments and spices are chiefly grown in the extreme south of India on the Malabar coast and in Travancore. Pepper, chillies, cardamom, cinnamon, and cloves are some of the noted spices of India.

(viii) *Sugar*. Sugar-cane is an indigenous plant of India which requires alluvial soil and an abundant supply of water. The climatic conditions necessary for the growth of sugar-cane are a long warm season, a good rainfall and a good soil of average fertility. Where the supply of rainfall is scanty, artificial irrigation is necessary for its cultivation. It is chiefly grown in the United Provinces, the Punjab, Bihar and Orissa and Bengal. The crop is usually planted from March to April, not by seeds but from cuttings, and is harvested from November to February. It is a perennial plant and one plant bears shoots for many years but since its output diminishes, it proves economical to renew the plants every two or three years or even annually.

India, until recently a large importer of sugar, is nevertheless one of the most important sugar-cane growing and sugar consuming countries in the world, the area under the crop being above 4·5 million acres—a little less than half the world acreage producing sugar-cane. We not only consume the entire quantity of raw and refined sugar produced in our country, but also import a large quantity of foreign sugar. With the grant of protection by the Sugar Industry Protection Act of 1932, a definite incentive to the increase in cane cultivation by modern methods has been given. The old varieties of cane like 'Dhaur,' 'Chun' and 'Angol' have been replaced by Coimbatore, Orissa and Java varieties. The sugar-cane industry owes a great deal of its progress to the work of sugar-cane breeding stations, but still the yield of cane per acre in India is much less than in Japan, Mauritius, Java, Cuba and Hawaii. There is still a very great scope for further improvements in cane cultivation. It is hoped that the newly constituted Imperial Institute of Sugar Technology and the funds granted by the Imperial

Council of Research for breeding improved varieties of cane and for dealing with the diseases of sugar-cane will make India produce more sugar than it requires for home consumption. People have already begun to show some concern at the alarming expansion of acreage under cane cultivation. The Sugar Committee has recently decided to start the proper sugar marketing survey, to adopt the zone system for each factory and to carry on a number of research experiments.

B. Non-Food Crops ✓

(i) *Cotton* occupies a very important position among the commercial and the export crops of India. It is a sub-tropical crop and requires a peculiar kind of soil. A brilliant sunshine, a light soil with lime, which can retain moisture for a considerable period, are the favourable conditions for its growth. The black cotton soil of the Deccan, which consists of deep dense clay, is most suitable for its raising. The plains of Gujarat and Kathiawar, the highlands of the Deccan, the Central Provinces and Berar, Hyderabad, Central India, Sindh, the Tinnevely, Madura, Coimbatore and a few other districts of Madras, the United Provinces and the Punjab are the principal cotton producing tracts in India.

About half of the total produce is raised from the black cotton soil of the Deccan. There are two main crops, the early crop and the later crop, the former is mainly grown in the Central and the Northern India while the later in the Southern and the Western India. Thus it is grown from March to August and harvested from October to April.

The quality of cotton produced in India is inferior and the yield per acre is also less to that grown in the United States and Egypt. In India it is £90 per acre, but in the United States and Egypt it is £200 and £400 respectively. India produces short-staple cotton, which is not very much suitable for spinning high count yarns. But now efforts are being made by the Agricultural Department to introduce long-staple cotton in India and to improve the quality and yield of Indian cotton. Although the efforts to cultivate Egyptian cotton in Sindh failed,

yet the American cotton is being successfully cultivated in Bombay, the Punjab and the United Provinces. To check the systematic deterioration of Indian cotton and to improve its marketing conditions, the Indian Central Cotton Committee was appointed in 1921. Under its control and direction the quantity and the quality of cotton grown here has improved. The total area under cotton is about 15 million acres and the total output is more than 6 million bales of cotton of £400 each. Our mills are consuming more than 45 per cent. of the yield and are producing about 850 million lbs. of yarns per year.

India has always been a large exporter of raw cotton to foreign countries and nearly half of the total produce is exported annually to Japan, China and the continent of Europe, but now owing to the trade depression the total export is being much lessened.

(ii) *Jute* is the next important fibre after cotton and occupies about 3 million acres of land. It requires moist and alluvial soil which remains submerged under water where the plants are growing. Thus its production is confined mainly to Bengal, Assam, Bihar and Orissa. The soil is enriched by alluvial deposits brought by river inundation and is thus made suitable for the growth of this exhausting crop without any manure. It is a *Kharif* crop being sown from March to May and harvested in the months of August and September. In the fertile valleys of the United Provinces about 2938 acres have come under jute cultivation. India exports jute both in raw and manufactured state. The United Kingdom, Germany, Spain, France, Japan, China, the United States, Italy and Belgium are the chief customers of India. The value of jute exported to these countries exceeds Rs. 72 crores.

(iii) *Oil-Seeds*. There are several kinds of oil-seeds e.g., linseed, sesamum, rape and mustard, ground-nut, cocoa-nut, castor, cotton seed, *mowra*, niger, coriander, cummin, *ajwan*, and *kardi* which are grown in Bengal, Bombay, the Central Provinces and Madras; elsewhere they are grown as mixed crops; and are raised both as *Rabi* and *Kharif* crops. They form im-

portant crops in every part of India and are put to many different uses. Linseed is a crop mainly raised for oil. It is largely exported to foreign countries. Its cake is used both as a fodder and a manure.

Sesamum or *til*, a *Kharif* crop being sown in July and harvested in November or December, is largely exported for soap making purposes. It is also used for food purposes. Burma and the United Provinces are the principal growers of it. Ground-nuts are chiefly cultivated in Madras and Bombay, and have shown striking expansion in recent years. Rape and mustard are *Rabi* crops which cover about 6.88 million acres of land, including 2.68 million acres in the United Provinces, on which mixed crop is raised. Cocoa-nuts are important sources of oil and much possibilities are awaiting its full development. Caster-seed is also important because the eri silk-worms are reared on its leaf. It is sown in the beginning of the Monsoon rains and harvested from January to February.

✓ Economically, the export trade in oil-seeds is very harmful as their export not only robs us of oil but also of the cake which is so necessarily required for cattle and manuring and consequently ways and means should be sought to put an end to their export.

(iv) Tea flourishes most in warm, moderately damp and fairly equable climates. The tea plant requires constant shower of rains but does not like to remain in water for long and, therefore, well drained hilly slopes are the best sites for its cultivation. It is chiefly cultivated in Assam, Bengal, Nilgiri Hills, Kangra Valley and Dehradun. India is a serious rival to China in tea production and has ousted Chinese tea from the English and European markets. The consumption, export and production in India have greatly increased due to the keen interest and efforts of the Indian Tea Association. The tea industry is mostly in the hands of Europeans.

(v) Coffee. It requires moderately mild climate, heavy rainfall and well-drained slopy hills. Its cultivation is mainly confined to Mysore, Coorg, Travancore, and some parts of Mad-

ras. It is sown and transplanted in the rainy season. After three years of its transplantation, the plant bears fruits and ripe ones are collected from October to January every succeeding year. After going through many manufacturing processes—pulping, fermenting, drying, milling and winnowing etc.,—coffee is prepared out of these ripe fruits. But owing to the keen competition with the cheap Brazillian coffee, the Indian coffee industry has been hit very hard. Areas once growing coffee are now planted with tea shrubs.

(vi) *Indigo*. It is chiefly cultivated in Madras, Bihar and Orissa, the United Provinces and Bombay. India has been growing indigo from very ancient times and for many decades in the nineteenth century India led the van of indigo trade in the world market. But the introduction of synthetic indigo in 1897 almost proved fatal to our indigo industry from the effects of which it is not yet fully recovered. Now-a-days Bihar is the most important from the point of foreign trade and it is here that the dye is systematically extracted and marked under European supervision. The bulk of indigo produced in Bihar factories is exported from Calcutta.

(vii) *Tobacco* flourishes in those areas where the soil is most alluvial, and well-drained. The chief provinces noted for tobacco cultivation are Bengal, Burma, Bihar, the United Provinces, the Punjab, Bombay, Madras and Central India. Half the recorded area under tobacco is in Bengal, but the province takes no share in the higher grade manufacture. The greater part of tobacco grown in India is intended for *bukka* smoking and is coarse and heavy in flavour. But recently there have been some important developments in the production of superior type of tobacco for commercial purposes. Madras and Bihar are showing great improvement in the manufacture of cigars.

(viii) *Opium*. At one time it was a very flourishing industry of India and was cultivated widely in Bihar, the United Provinces, and many native states such as Indore, Gwalior, Bhopal, Mewar and Baroda. But the area under this crop has

been considerably reduced owing to the stoppage of opium export to China. In recent years its internal consumption has been also controlled and discouraged. At the present day the cultivation of poppy is mainly confined to Bihar and some eastern districts of the United Provinces.

(ix) *Cinchona*. It flourishes most in cool climates and is mainly cultivated in Darjeeling and the Nilgiri Hills on slopes with plentiful supply of water. Quinine is produced from cinchona which is largely used in preventing and curing malarial fever. It is a government monopoly.

2. Mineral Products

It has now been definitely ascertained that the mineral potentialities of India are quite sufficient to maintain most of her 'key' industries. "The feature that stands out most prominently in a survey of the mineral resources of India is the fact that while striking progress has been made in recent years in opening out deposits from which products are obtained suitable for export, or for consumption in the country by what may be called direct processes, very little has hitherto been done to develop those minerals that are associated with the more complicated metallurgical and chemical industries. But in the past such was not always the case with India. She could once market alum, the various alkaline compounds, copper, lead, steel, and iron of the famous Delhi Pillar type, nitre, borax, etc. But the cheap European methods of metallurgical and chemical operations aided by low sea-freights and increased facility for distribution by the spreading network of railways have driven her out from the arena of competition. Now a country like India must be content to pay the burden of imports until industries arise demanding a sufficient number of chemical products to complete an economic cycle, and India does, in fact, import at present large quantities of metal and mineral products while possessing in many cases the mineral resources required to supply the demands in question. There is thus great scope for the development of mineral industries for supply-

ing the internal requirements of the country quite apart from markets that might be found abroad."

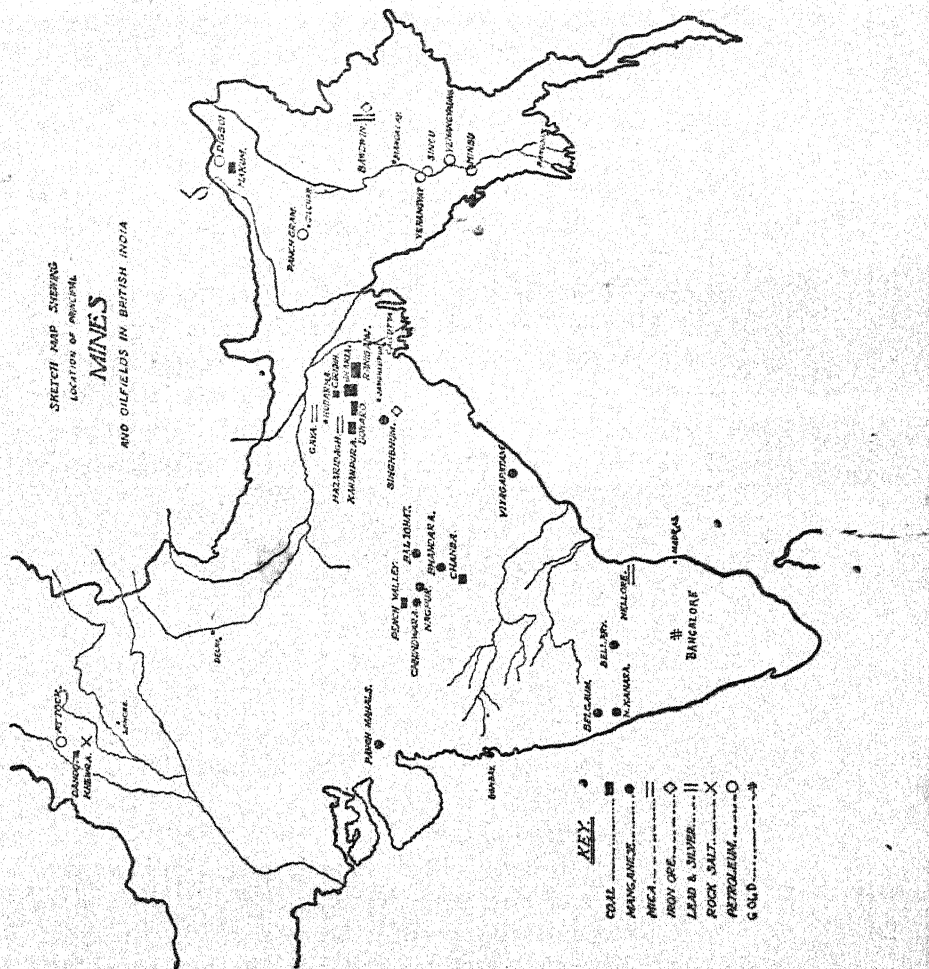
(i) *Coal.* India possesses vast possibilities in coal deposits which, unfortunately, are concentrated in one zone called the Gondwana system, and the chief coal-fields being Jherria, Raneeganj, Giridih and Barakar. The other less significant mines, contributing only 20 per cent of the total output are found in the Punjab, Baluchistan, Rajputana and Assam.

The coal industry in India is of a very recent growth. The introduction of railways created a demand for cheap coal and led to the opening up of several coal-fields during the second half of the nineteenth century. But due to the uneven distribution and the inferior quality of our coal, the expansion of coal industry is greatly handicapped. The poor quality of coal is not at all suitable for making coke which is so necessary in the production of steel. As a result of its concentration mainly in Bengal, Bihar and Orissa coupled with the high rates of railway transportation, the Bombay millowners are compelled to have recourse to the South African coal or coal imported from Germany and England. If improved and economical means are devised in mining it is expected that India will easily meet her growing demand for coal. The total output is near about 36 million tons valued at Rs. 10 crores. Railways alone consume about 34 per cent of the total production. The rapid increase of production of coal flooded the inland markets and caused a serious depression in the coal industry. The government met the situation by levying a protection duty on imported coal and by adopting measures to recapture the overseas markets. To popularize soft coke as a domestic fuel, the Indian Soft Coke Cess Committee was appointed.

(ii) *Iron.* The indigenous iron industry has been in a flourishing condition from ancient times and was carried on in different parts of the country. Iron ore is found in many provinces of India but by far the richest and most important of the iron deposits are those that occur in the 'Iron Belt' of Singhbhum and the Keonjhar, Bonaigarh and Mayurbhanj states

of Orissa, which contain 'a range of iron ore running almost continuously for forty miles.' The tracts are estimated to contain no less than 2,800,000,000 tons of ore.

Early attempts to establish a successful iron and steel industry on the European model proved abortive. The first suc-



cessful concern may be said to date when in 1874, the Barakar Iron Works started their operations on the Jherria coal-fields.

Later on in 1914, J. N. Tata the giant industrialist of India, inaugurated the Tata Iron and Steel Company at Sakchi. Steel was first manufactured in India by the Tata Iron and Steel Company. The war gave stimulus to the industry, though it had to face after the termination of the war a fierce competition from the imported steel coming in the Indian market at very cheap rates. The proximity of coal-fields and iron-deposits in Bihar and Orissa is of an inestimable advantage for the successful working of the iron and steel industries of India as this is enjoyed by very few countries in the world. For the rapid and successful industrialization of the country the development of iron industry is an indispensable factor.

(iii) *Petroleum*. There are two distinct oil-bearing areas in India on either side of the Himalayan arc; the one on the east, and by far the most important, includes Assam and Burma and the islands of the Arakan coast, contributing 95 per cent of the total output; the other on the west includes the Punjab and Baluchistan. The most successful oil-fields are found in the Irrawady Valley in Burma, from which nine-tenths of the indigenous petroleum is obtained. It is also believed that the Burma oil fields are on the point of exhaustion. India has to import every year huge quantities of kerosene oil especially from Russia and the United States in spite of the marked increase in its production.

(iv) *Gold*. Almost the whole of the Indian output of gold comes from the Kolar Gold Fields in Mysore. It is also produced at Hutti in Hyderabad State, in the Dharwar district of Bombay and the Anantapur fields of Madras. The output of the Kolar Gold Fields is on the decline. It is estimated to be 3 lakhs fine ounces of gold.

(v) *Manganese* is a very valuable mineral which is required largely by steel and glass manufacturers. The industry dates from 1892 when quarrying began in Vizagapatam in the Madras Presidency. In 1900-1901 the rich deposits in the Central Provinces were quarried, which now yield a larger quantity of ore than the Vizagapatam mines. The most important deposits

occur in Bihar and Orissa, Bombay, the Central Provinces, Madras and Mysore. India now ranks second in the list of manganese ore producing countries, but a major portion of it is exported to outside countries.

(vi) *Mica*. It is found in Bihar and Hazaribagh, Monghyr and Gaya, in the Nellore districts of the Madras Presidency and in Ajmer-Merwara and other states of Rajputana. India has for many years been the leading producer of mica with an output of more than three-fifths of the world's total. It is put to diverse uses and is mainly used in the electric industry as an insulating medium. With the development of this industry the demand for mica has also increased. India exports it mainly to the United States and the United Kingdom.

(vii) *Saltpetre*. At one time India possessed a practical monopoly in the supply of saltpetre which is so important in the manufacture of explosives and chemical manure, but now its production is on the decline owing to the discovery of large deposits of sodium nitrate in Chile in South America.

(viii) *Zinc*. The most important deposit of zinc ore is that of Bawdwin in the Shan States of Burma. Although zinc ores have received but very little attention in India for the past fifty years, yet there are many prospects of India's becoming an important producer of zinc ores. The Bawdwin deposits are very rich and if fully worked, India will not only supply her own demand but large amount of zinc will be available for export.

(ix) *Salt*. The consumption of salt is gradually increasing in India and is now about 1,711,348 tons a year. It is obtained by three important methods in India. About 60 per cent of the total output is obtained by evaporation of sea water on coasts of Bombay, Madras and Burma. Another source of salt is the Sambhar Lake in Rajputana. The third source of salt is the Salt Range and the Kohat mines in the Punjab, which are believed to be very rich and practically inexhaustible. Its manufacture is solely in the hands of the Government of India, though private companies are allowed to manufacture it on

certain terms and conditions.

The other mineral products exploited on a commercial basis are tin, copper, chromite, lead, silver, aluminium, nickel, gypsum, potash, gem stones, rubies, diamonds, wolfram and sulphur, amongst which some are very important for the development of metallurgical and chemical industries.

3. Forests

The forest vegetation of a country is largely dependent upon rainfall and elevation; where the temperature is high and rainfall abundant, evergreen forests are found, but in proportion as either of these conditions is wanting they become scanty and stunted. It is for these reasons that tropical countries with great heat and extreme moisture are covered with dense forests.

India is not unfavourably situated as regards the abundance and variety of her natural forests which cover more than 22,600 square miles in area. Broadly speaking, the following main types of forests may be distinguished.

(i) *Evergreen Forests.* These occur in regions of very heavy rainfall, such as on the slopes of the Western Ghats, the eastern Sub-Himalayan tract and the coast districts of Burma and Chittagong and are characterised by the great variety and luxuriance of their vegetation.

(ii) *The Deciduous Forests,* in which most of the trees are leafless for a portion of the year, occupy the large areas of the Sub-Himalayan tract, the Peninsula and Burma comprising considerably teak and sal trees.

(iii) *Hill Forests.* In these forests the vegetation varies considerably according to elevation and rainfall. In the north-western Himalayas the chief timber tree is the deodar which occurs most commonly at an elevation of 6,000 to 8,000 feet, and in association with oaks or blue pine towards its upper limit the deodar merges into very large areas of spruce and silver fir while below it are found extensive forests of the long-needed pine which is tapped for resin. On the Eastern Himalayas in

Assam and Burma the hill forests possess oak, magnolias, while Assam and Burma are covered in the dense Khasia pine at the elevation of 3,000 to 7,000 feet.

(iv) *Arid-country Forests*. They are mostly found in Sindh, Rajputana, Baluchistan and the south of the Punjab. The number of species is few and the produce is insignificant. The only important tree of these dry tracts is *babul*.

(v) *Littoral or Tidal Forests* occur on the sea coasts and along tidal creeks. The important trees are the mangrove or the sundries.

Utility of Forests

Undoubtedly, the importance of forests in the economy of an agricultural country like India can hardly be exaggerated where the benefits derived from them are so manifold. They exercise a tremendous influence on economic conditions both directly and indirectly. Indirectly, forest trees transpire enormous quantities of moisture which reduces the temperature of the atmosphere in hot climates thus producing an effect of equalising temperature. They have been also called regulators of rainfall, because by reducing the temperature of air they cause condensation. They act as a storage of rain water in the soil and raise the sub-soil water level of the earth and produce a more constant feeding of springs and rivers in the summer season. They, by regulating the courses of rivers, prevent flooding of water, erosion of the soil and denudation of rocks. They supply rich leaf mould which fertilises the soil, and forms one of the cheapest manures available for the farmer in the vicinity of forests. They reduce the velocity of air currents and protect the adjoining fields against cold and dry winds. In short, "Forests are national assets and civilisation is in urgent need of them. Not only do they provide supplies of timber, produce other raw materials, and incidentally give a revenue to the State, but their indirect advantages are even more important." The direct advantages of forests are very valuable inasmuch as they supply us a number of valuable forest products such as timbers,

fibres, grasses, drugs, spices, rubber, bamboos, dyes and tans upon which depend the successful working of so many manufacturing industries of India. They supply grazing grounds for cattle.

India possesses an inexhaustible forest wealth and if necessary amount of knowledge and enterprise, capital and other requisites of production are available, there are chances of India's becoming a leading industrial country in her manufactured forest products. The extensive reservoir of timbers and grasses can be successfully exploited by starting of resin, rubber, match, turpentine and catechu industries. It is because of these incalculable advantageous services that every civilised State has taken special measures for the preservation, protection and artificial growth of forests. The income derived from these forests by Government is near about 2 crores of rupees and in view of the vast area under forests the amount is inadequate. Germany with a smaller forest area earns more than 20 times than India.

Classification and Administration of Forests

The extensive forests in India are owned and managed by the State and for administrative purposes they have been classified into three distinct divisions—*reserved*, *protected*, and *unclassified*, according to the degree of control exercised by the State on forests. The reserved forests are solely under the control of the Government and are intended to be maintained permanently on climatic and physical grounds or for the supply of valuable timbers for commercial purposes. "In the case of protected forests, the local government has power to close a portion for a limited period, to reserve particular trees, or classes of trees, and to prohibit or regulate the removal of forest produce, the clearing of land, and the pasturing of cattle. The protected forest may be either in a state of transition to reserves, or intended to remain permanently in the second class." The only difference between the two classes of forests is that in the protected forests the control is not so stringent as in the reserved forests. In the case of unclassified forests, there are very few

restrictions for the use of the public. There are about 2,500 species of trees of which the most important and valuable is teak.

In order to put a stop to the reckless destruction of forests and for their proper maintenance, conservation and better utilisation, the Government have instituted the Forest Department. The Inspector-General of Forests is the Head of the Forest Department and is the technical adviser to the Government of India in matters relating to forest. The main functions of the department are to conserve, replant the forest trees and to improve their yielding capacity and to demonstrate their commercial value for industrial exploitation. For the promotion of research work a Forest Research Institute was established in 1906, and as a result of its efforts many valuable investigations have been undertaken and steady progress is being registered in scientific and practical knowledge which should ultimately lead to the fuller and better utilization of the raw products yielded by Indian forests. There are five main branches of research namely Sylviculture, Forest Botany, Forest Economic Products, Entomology and Chemistry, each branch being in charge of a research officer. One of the most important results of research has been to demonstrate that bamboo can be utilized for the manufacture of paper pulp, in addition to grasses like *Sabai* and *Bhabar* which have already been exploited in many paper mills of India. Improvement in the means of transport and communication, together with the proper afforestation and sylviculture schemes, will go a long way in increasing the potentialities of forests of India and will help the development of many forest industries.

SOURCES OF POWER

From times immemorial man has felt the indispensableness of pressing into his service some external power, in order to assist him in the production of wealth. Although human power has been used from the very infancy of creation, yet it is very

limited, nay ridiculously insignificant to operate heavy implements and, therefore, the muscular energy of cattle was sought in its stead. India, being an agricultural country has been using cattle power for drawing ploughs and carts, crushing cane and seeds, lifting water from wells, and threshing grain for centuries unknown. As the productive operations in the industrial economy become heavier and more complicated, the necessity of using some motive power or energy obtained from nature becomes more imperative. By power we mean any mechanical energy which helps in propelling engines and machinery.

One of the essential conditions of the successful industrial development is the provision of cheap motive power. Today, the success of manufacturing industries in any country is largely governed by the cheap availability of natural resources for generating energy. In spite of the disadvantage in not having even distribution of different sources of power, India is capable of generating sufficient amount of energy for her present needs. The principal sources of power available in India are coal, wood-fuel, oil, wind and water.

(i) *Coal* is still the most important source of power in India and extensively utilised for generating steam. Most of the manufacturing industries in India are worked by steam and practically the whole of our railways are driven by steam-engines. Coal has one great drawback in India as a source of power. Owing to its concentration in the Gondwana coal-fields the transporting charges to the big industrial centres in the far-off provinces are very high with this consequence that they increase the cost of production of the finished commodities to a considerable degree. The Indian coal can be used cheaply and conveniently only by the Bengal jute and the Bihar iron and steel industries which are in the vicinity of coal mines.

(ii) *Wood-fuel* can also be utilised to generate energy but owing to many extravagant methods involved in its operation, it is not much availed of. As the forests are easily exhaustible unless they are re-afforested on a comprehensive scale, it is not expedient to utilise them for this purpose because it will result

in a reckless destruction ultimately detrimental to the better interests of the country in a variety of ways.

(iii) *Oil.* For driving light machines like oil-engines, motor-cars, and buses, oil is a very important source of power. The most successful oil-fields are nearing their exhaustion and therefore, the need of careful economy in their exploitation has been insisted upon. Hence, it is not a promising source of power and much reliance cannot be placed on it.

(iv) *Wind-power.* The chief defects with the wind-power are that it is periodic and uncertain nor can it drive the heavy machinery. It can be advantageously employed in mills with smaller wheels and lighter machines. The value of wind-power in India is very small, because of the lightness of the prevailing winds except along the sea-coast and on the Deccan uplands.

(v) *Water-power.* The limited supplies of coal, wood and oil fuel and the world's increasing demand for them necessitated people to discover the possibilities of utilising water for the generation of electricity as a cheap and efficient source of energy. The discovery of hydro-electricity opened up a new vista and has brought about an unprecedented change in the structure of the industrial society. India promises to be one of the leading countries of the world in regard to the development of hydro-electric power and a great push-forward has been given to the development of hydro-electric projects in our country. The crying need of India is the provision of cheap and efficient power which is the keynote of successful industrial development. Our country is gifted with vast potentialities of water-power and its transmission by electricity offers good opportunities for supplying larger quantities of power at cheaper rates in all parts of India.

Hydro-Electric Schemes in India

Mysore Installation. This hydro-electric scheme was inaugurated on the Cauvery river, in Mysore State at Sivasamudram in 1902 with the main object of supplying power to the

Kolar gold-fields. Electricity generated at Sivasamudram is transmitted 92 miles to the gold-fields at Kolar. It was for a long time the longest electrical power transmission line in the world. Current is also sent to Bangalore, 59 miles away, where it is used both for industrial and lighting purposes.

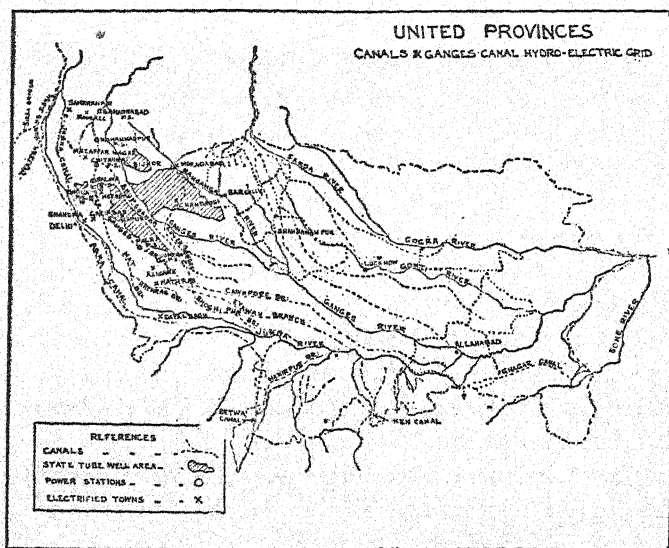
Kashmir Project. Subsequently, the Kashmir Durbar utilized the Jhelum river by installing a plant near Baramulla, which is capable of generating 20,000 units of electrical horse-power. The power is used by the State Silk Factory for moving the machinery and heating purposes. The greater part of Srinagar city is electrically lighted and the demand for power is constantly on the increase.

Tata Hydro-electric Schemes. The greatest water-power undertakings in India are, however, the Tata hydro-electric schemes on the Western Ghats, recently brought to fruition for the supply of power in the city of Bombay. They mark a big step forward in the industrial development of India. The first scheme was started in 1915 in the neighbourhood of Lonavla above the Bhore Ghat. "The rainfall is stored in three lakes at Lonavla, Walwham and Shirawta, whence it is conveyed in masonry canals to the fore bay or receiving reservoir. The power-house is at Khopoli, at the foot of the Ghats, whither the stored water is conveyed through pipes, the fall being one of 1,725 feet. In falling from this height the water develops a pressure of 750 lbs. per square inch and with this force drives the turbines or water-wheels." Originally, the scheme contemplated to generate only 30,000 electrical horse-power, but the increasing demand necessitated an extension of Shirawta dam, which increased the capacity to more than 40,000 horse-power. Another scheme, called the Andhra Valley Scheme is calculated to generate 1,00,000 horse-power which will be consumed by Tramway Company, and also by the Harbour Branch and Bombay-Kalyan section of the G. I. P. Railway for the first stage of their electrification scheme. A third project under the name of the Nila-Mula Scheme is now practically completed. After damming the valleys of the Nila and the Mula rivers a

big lake having an area of sixteen square miles has been formed at Mulshi, out of which water is made to fall from a height of 1,750 feet at Bhira power-house. It is calculated to supply 150,000 electrical horse-power which will be absorbed by mills, factories and local areas not yet electrified in Bombay and suburbs as well as by the B. B. & C. I. and the G. I. P. Railways. Another big project is contemplated by Messrs. Tata in the huge valley of the Koyna river which is calculated to generate 350,000 horse-power for developing electro-chemical industries near the power installation. When fully utilised and in complete working order, the hydro-electricity will not only remove the great handicap of dear power from which Bombay has hitherto been subject to, but will bring an appreciable saving in industrial cost and a considerable economy of fuel, and also improve the general tone of the public health by the conspicuous absence of dirt, soot and smoke—the dear associates of coal and oil.

The Ganges Canal Hydro-electric Schemes. Recent investigations have evinced fair prospects for the development of water-power in the United Provinces and the Ganges Canal Hydro-electric Project has been undertaken to supply cheap power for lighting and industrial purposes by means of the 'grid system.' Apart from employing the Ganges canal for irrigating the land, it has been further utilised in generating electric power for lighting, industrial and agricultural purposes. On the canal about ten falls have been considered suitable for generating electricity, out of which six have been already developed and are supplying more than 15,000 kilowatts of electrical power. The important power stations are Bhira, Sumera, Bahadurabad, Palra, Chitaura and Mohammadpur. The proposed schemes likely to be completed by the year 1941 have a potential generating capacity of over 2,800 kilowatts. The electric power is conveyed by overhead lines to all the big towns in the districts of Saharanpur, Muzaffarnagar, Meerut, Bijnore, Moradabad, Bulandshahr, Aligarh, Nagina, Hathras, Badaun, Etah, Muttra and Agra. State tube-wells have been constructed for ensuring a regular supply of water to agriculturists in

those areas which hitherto suffered from the shortage of artificial means of irrigation. It has been planned to construct about 474 tube-wells in the district of Moradabad, 237 in Meerut and Bulandshahr, 107 in Bijnore and about 400 in Badaun. The



Grid electricity, besides being useful and convenient to cultivators in their agricultural operations as a cheap source of power, has also greatly helped the development of minor industries as it is now transmitted to about 100 towns of the districts mentioned above.

The Mandi Project in the Punjab. The Mandi Project utilises the snow-fed waters of the Uhl river, a tributary of the Beas, which joins the latter in Mandi State about five miles east of Mandi town. The scheme has been formulated in three stages. The first stage of the project, which is now complete, will generate 48,000 horse-power which will be supplied to Lyallpur and Ferozpur. In the second stage, by the construction of a dam the electrical output would be doubled. In the last stage an additional amount of 64,000 horse-power will be

generated and the transmission of power will be extended to Sharanpur, etc.

Madras also offers many favourable sites for hydro-electric projects; of these one on the Pykara river in the Nilgris and another on the Kallar river on the borders of Travancore have been selected for development. Assam has sufficient power for supplying the needs of its tea industries. In Bihar and Orissa and the Central Provinces there are only moderate possibilities of development. Bengal has large water-power in its Himalayan area. Although so much progress has been made, yet a very small fraction of the country's water-power is, at present, being utilised. The estimates show that only 2 per cent of her water-power is used while the rest is still running to waste. The one great difficulty that we have to encounter in the generation of power in India is *the initial heavy cost of installation owing to the seasonal character of rainfall*. Means have been devised to cheapen the cost. The hydro-electric schemes have been combined with important irrigation projects, "the water being first used to drive the turbines at the generating stations and then distributed over the fields."

Effects on the Economic Activities of the People

Let us, in brief, describe the general possible effects upon the economic activities of the people in the country. Indeed, there is a great future before the country, for cheap motive power will not only expedite the industrial development in urban as well as in rural centres, but also bring a considerable improvement in the rural conditions of India. The introduction of cheap electrical power in the rural areas is fraught with vast potentialities for the progressive development of agriculture. Electrical power, above anything else, will solve the water problem by the installation of tube-wells driven by current thus removing the problem of drought altogether, which is a terrible scourge to our agriculturists and responsible to a great extent for their fatalistic tendencies. Although at present the hydro-electric distribution is in its infancy, yet it is not unduly opti-

mistic to expect in the not-too-distant future, an average cultivator of sound economic position together with a proper equipment of scientific knowledge of cultivation receiving his supply of electric current for driving his machinery in the different processes of agriculture such as tilling, levelling, sowing, reaping, threshing and winnowing etc., and effecting an appreciable reduction in the costs of cultivation. It is very doubtful whether the petty farmers would derive any advantage of cheap power owing to the heavy initial cost incurred in the employment of improved type of machines for agricultural operations, but non the less it is sure to make the rural population "electrically-minded."

The small cottage industries worked by cheap power will flourish side by side in rural areas with large-scale industries in large industrial centres, where they have to entail additional costs in transporting raw materials from the rural areas for manufacture and in sending back for sale their finished commodities. It will greatly facilitate the decentralisation of industries—the undue concentration of which in few big cities at present is a great source of many of their difficulties, specially in connection with labour supply and housing. It is also increasingly realised that cheap fares in consequence of cheap power on the electrified suburban railways and tramways for the removal of the surplus population from the congested cities will bring a real social gain in the shape of the improved health of the people. The cities of today enveloped in thick and foul smoke, overladen with soot and dust and surrounded with stifling atmosphere will be a thing of the past with the gradual adoption of the hydro-electric power.

Animal Resources

India abounds in a large variety of wild and domestic animals. The extensive forests of India shelter multifarious wild animals and numerous species of birds providing an excellent game for hunters and fowlers. The domestic animals are an indispensable factor in the agricultural economy of India.

The bullocks and the male buffaloes are the most important for agricultural purposes ranging from the ploughing of the field to the threshing of the corn. The cow and the she-buffalo are mainly prized as supplying milk and dairy products which are necessary food articles in a vegetarian diet. Goat and sheep provide us with milk, mutton and wool. Horses, ponies, donkey, camels and elephants are useful animals of burden and are considerably used in different parts of India. Other important by-products of animals are tusks, bristles, horns, fat and bones which are of great economic value.

The following table will show the population of live-stock in British India and Native States.

British India in lakhs		Native States in lakhs
Cows, bulls and buffaloes ..	1520	1410
Sheep and goats	350	280
Horses, donkeys and mules	30	10
Camels	2	5
Total	1902	1705

Looking over the above figures, it is not difficult to find out that our cattle supply per 100 acres of land is very high as compared to other countries, while in terms of the population of this country our live-stock is 74 per 100 people as compared to 500 of United Kingdom, 160 of Australia and 490 of Uruguay; but it must be admitted that our stock of domestic animals is slowly deteriorating to the great detriment of the agricultural industry in India. Diminished grounds for grazing, insufficient fodder crops, slaughter of prime cows and absence of facilities for better breeding and cattle-rearing have jointly and separately brought about this undesirable state of

our cattle. It is an imperative necessity not only in the interests of the agricultural industry but also of the people of the country that the above noted defects should be removed to improve the quality of the cattle. This matter is now receiving the attention of the Imperial Council of Research. The present Viceroy of India is taking a very keen interest in improving the quality of the breed of cattle and to solve the problem of milk supply in the country.

Pisciculture

Of the aquatic products fish forms an important food product especially in provinces like Bengal, Bihar and Orissa, Assam, Burma and the coast strips of the Peninsula, where "it supplies the people with the nitrogenous elements in their diet, elsewhere obtained by the use of pulses." But the fisheries of India in spite of their potential resources as yet yield a mere fraction of what they could if they were exploited on scientific basis. The chief distinguishing feature of our fishing industry is that it is regarded as a low occupation and universally relegated to low-caste people who are extremely averse from changing their primitive methods of catching the fish owing to their want of education, lack of capital and extreme conservatism. As the fish provides us a delicious type of food, an organised exploitation of the enormous resources is absolutely necessary along modern scientific methods.

The Madras Government was first to take the initiative and set up a distinct Fisheries Department whose activities have greatly expanded since its inception. The main efforts of the Government are directed towards improving the professional knowledge of the sea-going fishermen. Fish-curing is practised extensively everywhere on the Madras coast and the development of this industry is due primarily to the sincere efforts of the Department of Fisheries. In Bihar and Orissa fishing is extensively practised in small rivulets, estuaries of rivers and swamps. Bengal is enormously rich in fishery wealth and in every tank or *Jheel* of the village fish is regularly reared. It is

a necessary item in the diet of about 80 per cent of the people living in Bengal. Calcutta alone consumes over 4 lakhs maunds annually. In this undeveloped state of fisheries when they are most crudely exploited about 9 lakhs of people are engaged in catching and selling fish in Bengal. The Bengal Fisheries Department is making some efforts to improve the propagation of fish and the lot of fishermen with a view to free them from the oppression of the mahajans (fish contractors and middlemen) by organizing them into a number of fishermen's co-operative societies.

If Bengal's fisheries are mainly confined to inland waters, those of the Bombay Presidency excepting Sindh where fish is abundantly found in inland waters, are mainly found on the coast line of the sea. In Burma the fisheries being the monopoly of the Government yield a large amount of revenue to the province and therefore they are regarded by some as one of the most important sources of national wealth.

High-class capitalists have always fought shy of mixing with the low-caste fishermen to assist in the development of the Indian fisheries. The present condition of the industry is such that the initiative to uplift and educate the fishing community and to introduce the modern improvements in the industry, must be taken by the Government.

CHAPTER XI

LABOUR

What Labour Means?

Labour, in Economics, includes all human effort, of body or mind, which is directed to the production of wealth. Jevons has thus defined it, "Labour is effort, bodily or mental, put forth by human beings, not exclusively for the sake of the pleasure immediately associated therewith but partly or wholly, with a view to the attainment of some ulterior object." According to this definition, only human exertion is labour which is undergone with the object of creating some utility or rendering some service measurable in terms of money, whereas the work done by animals such as horses, camels, etc., is not classed as labour in Economics. All those exertions which are undertaken by men merely for the sake of amusement and pleasure such as in singing, swimming, playing and walking are not regarded as labour in spite of their casual or ancillary advantages. In Economics, only those exertions which are undergone with the object of getting some remuneration and which must result in the creation of wealth are termed as labour. A son who serves his father out of his parental affection cannot be called a labourer and as such his services cannot be classed as labour. A tourist who climbs a mountain simply to enjoy its beautiful landscapes is not a labourer, but the guide who climbs in the expectation of some reward is a labourer. If we are to classify any exertion as labour we should see whether it results in the creation of wealth in a form which may be utilised to satisfy some human want. Accordingly, the labour of a thief, a gambler, a swindler, a mendicant cannot become economic for all these groups of persons simply try to get things away from others, without

Good
Definition

adding any utility to them.

The work put forth by persons is of very different kinds; unskilled labour requires more of physical strength and is mainly mechanical while skilled labour is that which requires the use of mental faculties of intelligence, discrimination and judgment. In some professions both kinds of labour is required, though the predominance of the one may be quite apparent. The word labour is often used to denote the labourers themselves, and no ambiguity is felt in using the term 'labour' for the term 'labourers' because labour is inseparable from the labourer. We often hear people speaking that labour is cheap or dear meaning thereby that labourers are cheap or dear.

Productive and Unproductive Labour

There has been much profitless controversy among the economists over these two forms of productive and unproductive labour. For instance, one of the earlier groups of French economists or, physiocrats, as they are called, believed that only that kind of labour is productive which is devoted to the production of agricultural crops. Adam Smith and John Stuart Mill believed all those efforts to be productive which are embodied in material objects and as such they regarded the labour of the public officials and professional men, whose efforts do not contribute any tangible results, as unproductive. Smith defined unproductive labour in the following words: "All works which perish in the very instance of their performance and seldom leave any trace or value behind them, for which an equal quantity of service could afterwards be procured, are unproductive works."

But the modern economists do not draw any such arbitrary line between these two forms of labour. According to our definition any kind of labour which produces economic utility irrespective of its forms is a productive labour. "Broadly," says Chapman, "all is productive labour, which yields, or is intended to yield, something of value; it embraces all services which we are prepared to pay for." Only that labour is unproductive

which fails to produce any utility. Again to quote the same learned writer, if a company started to cut a canal but was afterwards compelled to desist because the project was not feasible, the labour already expended would be as unproductive.

Malthusian Doctrine of Population

Towards the end of the eighteenth century Malthus, the famous English scholar of History and Political Economy, propounded his doctrine of population which although true in essentials is subject to criticism. He was induced to formulate this theory because in consequence of the Napoleonic wars and the gradual emergence of Industrial Revolution when everything was in a topsy-turvy state—unemployment and poverty being rampant—he believed that great and unconquerable difficulties lie in the way of further improvement of society owing to the power of population to increase at a much faster rate than the power of earth to produce food for man. Malthus, in the second edition of his "An Essay on the Principles of Population" laid down the three following propositions with regard to the growth of population.

1. "There is a tendency of population to increase faster than the means of subsistence." After regarding carefully the economic condition of the different countries he writes that "every people of whose history we have a trustworthy record has been so prolific that the growth of its numbers would have been rapid and continuous if it had not been checked either by a scarcity of the necessities of life or by some other cause, that is, by disease, by war, by infanticide, or lastly, by voluntary restraint." He thought that population, when unchecked increases in geometrical progression i.e., in the ratio of 1, 2, 4, 8, 16, 32, 64, 128 etc., and that the means of subsistence increase only in arithmetical progression, i.e., in the ratio of 1, 2, 3, 4, 5, 6, 7, 8 etc. Population in all countries, he observed, tends to outstrip the means of subsistence.

2. "Population invariably increases when the means of subsistence increase, unless prevented by powerful and obvious

checks." Certainly, if there is an increase in the food supply, then, with the existing standard of living that country can support a larger number of people than before.

3. "The checks which keep the population down to the level with the means of subsistence" are positive and preventive.

(i) *Positive checks* are those which owing to insufficient nourishment, inadequate clothing and improper housing increase the death-rate and immediately reduce the size of population, e.g., infanticide, famines, diseases, cannibalism, starvation, war, etc.

(ii) *Preventive checks* are those which help in the diminution of birth-rate and ultimately reduce the number, e.g., moral restraint such as postponement of marriage or artificial checks to births, etc. He, by his personal observation, came to the conclusion that if population were allowed to grow unchecked nature will cut it down by positive checks and the fast growing population will perish miserably owing to epidemics and wars. He, therefore, fearing the frightful increase of population, urged people to exercise preventive checks as "the positive checks only excite new growth, just as the grass that is mown grows all the more rapidly afterwards." The most efficacious preventive check, according to Malthus, is moral restraint.

History certainly has not confirmed the fears of Malthus. "The laws (of Population) still remain intact, but the conclusions which he drew from them were unwarranted." His mathematical formula relating to the ratios of increase of population and that of food is no longer held as correct. No single country in the world is perhaps complaining of over-population. If in some countries population has increased, wealth and prosperity have also correspondingly increased. In fact, Malthus could not realise the possibilities of gigantic improvements in the means of communication and transport as a result of which the enormous increase in the food supply, likely to be effected by the more scientific methods of cultivation of virgin lands in the distant parts of the world, would be transported from the areas of plenty to the areas of scarcity. Today a country can

afford to support a much larger population than its total production of food materials, provided it produces sufficient wealth in other forms to pay for the food which it buys. The problem of today is, as Moreland writes, "no longer one of raising sufficient food to support the population of a particular country, but of producing sufficient wealth to provide by purchase the food that is required."

Efficiency of Labour

Efficiency of labour denotes the capacity of a worker to produce relatively larger amount, or better kind of work or both in a given space of time. It must be reiterated that the efficiency of one factor depends on the efficiency of other factors with which it is combined in production. Efficiency of labour depends "partly on the employer and partly on the employed, partly on the organisation and partly on individual effort, partly on the tools, machines, etc., with which the worker is supplied and partly on his own skill and industry in making use of them." Thus the subject of productiveness or efficiency of labour resolves itself into two; what factors go to promote the personal efficiency of labourer? And, how does the improved organization of the employer contribute to the efficiency of labour? Let us first consider only those personal factors which affect the productive efficiency of labourers.

Physical Strength. From the viewpoint of production of material wealth, physical strength or 'physical vigour' which includes such qualities as muscular strength, a good constitution and energetic habits, is of extreme importance. People, who are endowed with a sound health, a good constitution and a longevity produce much more wealth than those whose length of life is shorter and subject to constant inroads of the erosive diseases. The efficiency of workers is influenced by their physical environment to a considerable degree. Racial characteristics are largely the heritage of climatic and physical conditions. Extremes of climate, whether too hot or too cold, are not conducive to hard work; a warm climate saps the vitality of the

people and makes the application of sustained efforts well-nigh impossible while cooler climates in the temperate zone are believed to stimulate physical vigour enabling the people to put in more sustained labour. Besides these basic factors in determining the productive efficiency of a race, the standard of living of the worker and that of his parents greatly counts in productiveness. Ill-nourished, ill-trained, ill-clothed and ill-housed children of overworked, weak, weary, indigent and despondent parents are sure to prove inefficient workers in the long run. A proper supply of nutritious food prepared and taken in conformity with the economic and dietetic principles tends to increase the efficiency of the labourers. After food, sufficient clothing, adequate shelter, fresh air, healthy amusements and regular physical exercise are necessary factors in order to bring about labourers to an efficient state. A good rest is essential for the proper development of the productive capacities of workpeople, as overwork of every kind brings weariness and lowers vitality and is greatly detrimental to the efficiency of the labouring classes. Intemperate habits should be eschewed as they are fatal to any serious physical exertion. The sanitary conditions of the houses and the healthy environments of the workshops having all the possible amenities of life within their precincts wherein labour power works for a major portion of the day also tend to raise the industrial efficiency of the workers.

Intellectual Strength. Intellectual fitness in modern times is as essential as the physical fitness for the efficiency of labour and its importance relatively increases as that of the physical strength decreases with the introduction of machinery. Intellectual strength is largely the result of education—general and technical. General education imparted in the schools besides providing an elementary knowledge of many things 'affords the means of that wider intercourse which leads to breadth and elasticity of mind' even after the abandonment of school education. It develops imaginative faculties of men, quickens the faculties of observation, promotes clearness of mind, sharpens the faculties of discrimination and accurate judgment, engenders

an optimistic view of life and enables them to grasp quickly and intelligently intricate problems arising in this work-a-day world. Good education of the worker is an indispensable factor in his efficiency as its direct and indirect results are highly beneficial to him. This intellectual equipment is largely the result of social advancement and the stage of civilisation found within a community. The inefficiency of Indian labourers may largely be attributed to the want of education; without a good system of education it is idle to expect any increase in the industrial efficiency. Technical education or training which is imparted by different technical institutions suited to the particular requirements of an occupation, has assumed a position of extreme importance in the modern industrial economy. It aims to give a full command over the difficult and delicate processes of machine production and imparts that artistic skill and knowledge which is extremely useful in a particular occupation. The absence of technical institutions and the lack of specialised ability required for the special branches of productive activities is a great handicap in the efficiency of Indian workmen.

Moral strength. Moral qualities such as honesty, punctuality, industry, self-respect and self-reliance, considerably promote the productivity of a labourer. Even if a labourer is properly equipped both physically and intellectually the amount of work that he performs depends on his will and the desire to work. If the worker possesses a good moral character, if he realises his responsibility in faithfully discharging his allotted task in a given space of time, and if he is not a shirker but works vigorously unmindful of the master's presence or absence, he is sure to prove himself as the most capable and efficient producer. The will power or moral strength may be considerably improved by a judicious combination of general and technical education of the workers. Marshall regards hopefulness, freedom and change as essential requisites for the moral strength.

Let us now answer the second question—"How employers can contribute to efficiency?"

Efficient organisation under modern methods of produc-

tion counts a good deal in the maintenance and improvement of the industrial efficiency of the workers. Labour under imperfect organization and careless management would result in a relative waste. Each worker should be entrusted with a task best suited to his aptitude and training in order to secure maximum of results with the minimum of labour. The efficiency of different factors of production is interdependent and the way in which labour factor is combined with other factors of production in order to bring most fruitful results out of a certain fixed quantity of effort is the sole concern of the efficient organisation. The delicate and costly machines should be assigned to the care of the skilled labour otherwise its productive efficiency would receive a serious setback if it is called upon to operate poor and out-of-date machines. By introducing several 'welfare schemes' inside and outside the workshop or the factory the enlightened employers and organisers try to stimulate the physical, mental and moral activities of their workpeople.

The Supply of Labour

A country's productivity depends ultimately upon the total availability of its labour force. But it is not merely numbers that constitute the labour power of a country for, as is clear, a well-organised group of hundred labourers in a factory contributes its quota to production much more than a similar disorganised group wanting in those physical, mental and moral capacities which are found in the former group. Therefore, efficiency or productive capacity is another important factor which determines the volume of labour force in a country. That is why, in some countries a few number of efficient labourers produce large amounts of wealth with greater ease in the same or less time than countries with much larger populations can do. A third factor which also partly determines the supply of labour is the aggregate number of hours during which labourers are put to work. As a rule, if the labourers work for a larger period of time, provided that efficiency is not proportionately impaired by the long hours of work, their activity

would result in a larger amount of produce than those who work for shorter hours. Thus the main factors which determine the supply of labour in a particular country are the following:—

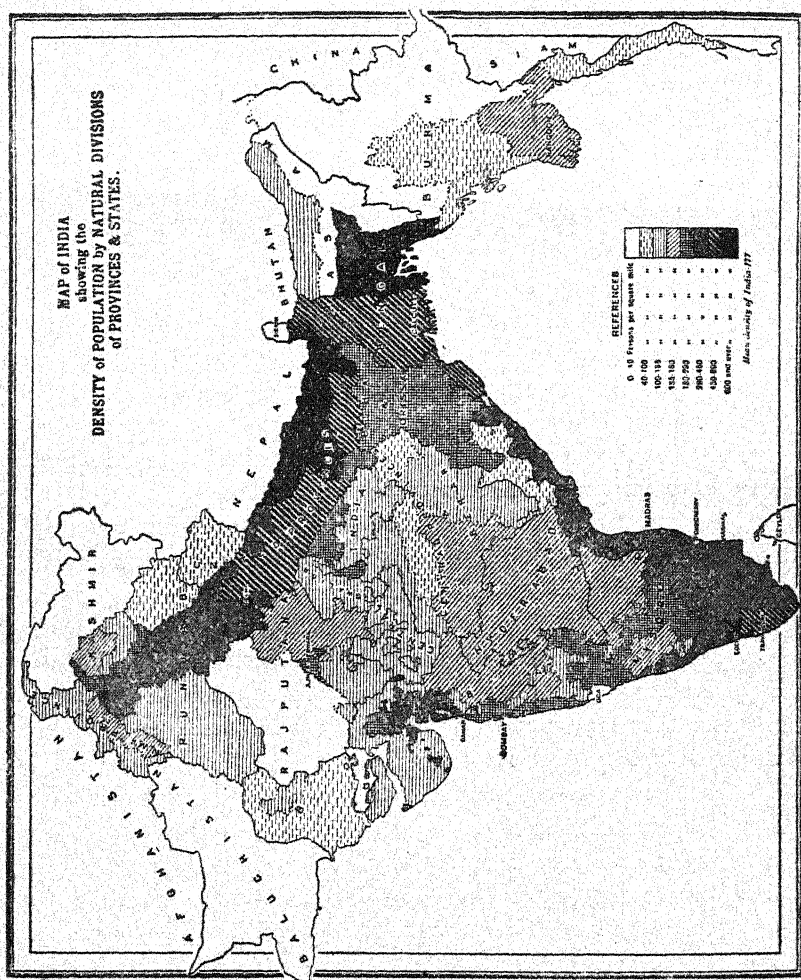
1. The number of labourers.
2. The quality or productive efficiency of labourers.
3. The number of their working hours.

The number of labourers depends upon the size of the population which in return is affected by (i) the birth-rate, (ii) the death-rate, (iii) immigration, and (iv) emigration. Obviously, if the number of birth exceeds the number of deaths at a certain period of time, the difference will constitute a natural increase in the supply of labour of that country. The birth-rate in a country depends to a considerable degree upon its climatic conditions, upon the social customs and traditions with regard to marriage, and upon the kind of standard of living commonly observed in that country. In India the birth-rate is exceptionally high owing to a hot climate, the social sanction for a married life at an early age, and a low standard of life met within the country. A high standard of living has a tendency to check off any abnormal increase in population. Besides birth-rate, the death-rate is also an important factor in determining the size of the population in a country. If the death-rate is high the growth of the population will be retarded. On the contrary, the lower the death-rate, the higher will be the tendency to an increase in population. In order to find out the total number of workers in a country, it should be borne in mind, economists always consider the number of actual workers and exclude those children who have not entered their teens and the worn-out workers who are above fifty or sixty years (this process of exclusion and inclusion of persons assuming as unfit for labour is largely governed by the climatic and physical conditions of a country in question) because they owing to their dotage are scarcely expected to contribute any quota to the national income of the country. Again, from the numbers so calculated, the number of the blind, the lame and

emaciated bed-ridden diseased persons beyond any hope of recovery, who are incapable of putting any kind of work for the production of material wealth should also be deducted to possess an approximate idea of the working people in a country. Emigration diminishes supply and labour in a country whereas immigration into a country increases the supply of labour. Thus, countries like Canada and Australia are at present gaining greatly in population by a large number of immigrants (that is, persons coming to live in a country) while recently some European countries, and notably Ireland have had their population reduced by emigration (that is by people leaving their countries to live in other sparsely populated lands). In India there is practically no immigration, but on the contrary, over a million Indian labourers who are comparatively unskilled and poor have emigrated to some of the new Colonies.

As has already been pointed out, efficiency counts much in the supply of labour. It depends upon the manner in which labour is organised and directed. Experience tells us that if labour carefully looked after and intelligently organised and each labourer appointed for the task for which he is best fitted, its productivity will have a tendency to appreciable improvements. The organisation of labour on scientific lines is an indispensable factor of mass production.

A third factor, viz., the number of working hours, also bears an influence on the supply of labour in a country. The total volume of labour supply in a country can be increased to a certain extent by working long hours. But the consequences of such a sustained hard labour for a longer period of time are too detrimental in the long run from the point of view of national productivity. It is apt to undermine the health and efficiency of the workers. The tendency is otherwise now-a-days as some of the modern scientific studies in fatigue and technique of labour have demonstrated that shorter the number of hours the labourers work on their jobs suited to their temperament and training, the greater would be their output of wealth. Where labour is organised and directed on a short-



period basis, the labourers work with greater interest and concentration so that within the limited space of time they can turn out a larger amount of wealth-production and enjoy at the same time a greater amount of leisure and recreation for the development of their physical and intellectual faculties. Hence, a resort to hard work for long hours in order to increase the total labour supply of a country is extremely deceptive.

HUMAN FACTOR IN INDIA

The total population in India according to the latest census report of 1931 is 352,837,778 against 318,942,480 in 1921 and 315,156,396 in 1911. An increase of 10·2 per cent has been recorded in the latest census (1931) over the previous census taken in 1921. About 77·2 per cent of these people live in British India and 22·8 per cent in Indian states. India is primarily a land of villages and tiny hamlets and there are about 7 lacs of villages in India. Of the total population about 90 per cent live in villages and about only 10 per cent in towns, the corresponding percentages in England being 21 and 79.

Factors Determining the Density of Population

The density of population (i.e., the number of persons living per square mile) is determined by a variety of conditions discussed below.

(i) *Rainfall and Climate.* It is natural that the density of population must be high in a purely agricultural country like India, as elsewhere, where the facilities for earning a sustenance are goodly available. A sufficient quantity of rainfall and the presence of adequate artificial means of irrigation, considerably expedite the growth and prosperity of the population. And as there is very close relation between rainfall and agricultural productivity of wealth, therefore, density of population follows very largely the amount of rainfall. But it is a very vague generalisation subject to many exceptions. It should be borne in mind that for the successful raising of crops a certain amount of rainfall is essential beyond which an additional quantity is useless and sometimes even detrimental. The other factor which is taken into consideration is the healthy climate of the locality. Thus in spite of the heavy rainfall that the Tarai tract receives, it is sparsely populated owing to the malarial climate of the place. Similarly in the upper part of Burma where rainfall is abundant population is very thin owing to the want of a healthy climate of the country and other requisite

factors favourable for the cultivation of crops. The low density of population of Rajputana can be accounted for by the scantiness of rainfall. The well-watered regions of the Indo-Gangetic Plain extending from the Surma Valley right upto the Jhelum and the coast strips are the most thickly populated areas in India.

(ii) *Configuration and Fertility of the Soil.* * Physical configuration of the soil constitutes an important factor in the growth of the density of population, the best example of which is afforded by the Bengal Province. Thus in Eastern Bengal owing to the natural system of drainage the rainfall does not lead to water-logged areas, where the density of population rises as high as over 1,000 persons per square mile in some places, whereas, the density of population in Western Bengal possessing the same fertile soil and receiving an equally abundant rainfall is greatly affected owing to the want of a proper drainage system resulting in water-logging areas and malarious climate. The level nature of the country where every inch of the land can be brought under cultivation can support a high density of population; but on the rocky and mountainous land where cultivation is difficult and precarious, population would be sparse.

(iii) *Irrigation.* In some tracts insufficient rainfall retards the growth of population but where the deficiency is made good by the artificial supply of water a high density of population can be maintained. An artificial and regulated supply of water through a splendid system of canals has brought about wonderful changes in the Punjab, where arid tracts are being transferred into most fertile ones. There are possibilities that Sindh, hitherto one of the most sparsely populated provinces of India, will record, with the complete working of the Sukkar Barrage Scheme, a higher density of population.

(iv) *Transport.* 'If cheap and rapid means of communication are available, population tends to move there, provided the place is otherwise attractive for purpose of production.' Many places such as the Central Provinces, Assam, etc., besides many other causes speak of the low density of population be-

cause of the absence of transport facilities.

(v) *Freedom from Enemies.* Peace and security are apparently conducive to high density of population. Insecure tracts are characterised by a low density of population.

(vi) *Industrial Development.* Besides these factors, the stage of economic progress is also one of the main determinants of the density of population. An highly industrialised and commercialised country will permit a denser population than an agricultural one. The establishment of modern manufacturing industries attracts large number of labourers from the rural areas. Bombay, Calcutta, Nagpur, Jubbulpore, Jamshedpore, have grown populous in this way. The concentration of labour in the districts of Manbhum and Singhbhum in Orissa and Chota Nagpur in spite of the mountainous nature of the country is mainly due to the development of coal, iron and steel industries.

Density and Distribution of Population

The density of population per square mile is 226 in British India and 101 in the Native States. The mean density over the whole of India is 177 per square mile. India supports one-fifth of the world's total population.

The density of population in India is not the same in all parts of India; it varies from province to province. The average density of the various provinces and the important Native States of India is as follows:—Bengal 650, Bihar and Orissa 458, United Provinces 451, North-West Frontier Province 380, Madras 328, Punjab 286, Bombay 218, Ajmer-Merwara 184, Central Provinces and Berar 160, Assam 152, Baroda State 266, Mysore State 210, Hyderabad State 152, and Central India and Gwalior 118.

As the country is purely agricultural, the density naturally differs according to the available means of subsistence which almost solely depend upon the suitability of the soil and precipitation for growing crops. The table given on the next page

will give an idea of the density of population in different countries of the world.

Belgium	.. 654	Austria	.. 199
England and Wales	.. 649	France	.. 184
The Netherlands	.. 544	Spain	.. 107
Germany	.. 332	Egypt	.. 34
Japan	.. 215	United States	.. 32

Growth of Population

The actual increase in the Indian population during the last fifty years has been much slower when compared with other civilised countries. The first regular census which was taken in 1872 recorded the total population of India to be 206 millions and since then the population has been steadily increasing in number.

The following table illustrates the growth of population from decade to decade.

Census of	Population	Percentage increase each decennial period
1872	206, 162, 360	..
1881	253, 896, 333	23.2
1891	287, 314, 671	13.2
1901	294, 361, 056	2.5
1911	315, 156, 396	7.1
1921	318, 942, 486	1.2
1931	352, 837, 778	10.2

The actual rate of increase in the population has not been so rapid as it might seem to a reader from the figures given above. Allowance must be made for the additional area included in each census since the first and of greater accuracy in the methods of taking census. After making proper allowances for these factors the real increase of population has been recorded to be 20.1 per cent during 1871-1921. A comparison with other countries will give an idea that the rate of increase is not so rapid as it is found in other countries of the West. "Whereas the percentage increase of population between 1870 and 1921 was about 20 in India, it was 58.2 in England and Wales, 53.2 in Denmark, and 45 in Europe as a whole excluding Russia." The population of the United States during the period of 1881-1921 increased by 82.1 per cent and that of Japan rose by 83 per cent in 24 years from 1896 to 1920.

Among many causes which account for this low rate of increase of Indian population the important ones may be enumerated here. The effects of high birth-rate in India which is about 35 per thousand per annum are largely nullified by a high death-rate so that the survival rate in India is lower than in Europe where although, the birth-rate is much lower, the death-rate is lower still. India being a tropical country is subject to all peculiar diseases such as malaria, small-pox, cholera, and "fever" under which are usually placed dysentery, pneumonia, phthisis, relapsing fever, etc. The terrible ravage of famines and the appalling low standard of living, in other words, the grinding poverty of masses are other main causes of high rate of mortality in India. Professor Banerjee states that the slow growth of population is due to several causes—famines, epidemics, diseases, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage. In every decade we find a heavy toll of population being wiped away either by famines or the scourge of numerous fatal diseases. A severe famine in South India which took away very large numbers seriously checked the increase in the decade of 1872-1881. The succeeding decade due to the

absence of any natural calamity to which India is so helplessly exposed, showed an increase of about 13.2 per cent in the total population of India. In the next decade the terrible famines of the closing years of the nineteenth century and the ravages of bubonic plague caused a heavy mortality. The decade of 1911-1921 showed an exceptionally low rate of increase of about 1.2 per cent which can be attributed to influenza epidemic in 1918-19 which carried off about 85 lacs of people and the Great War which cost India a heavy loss of human life and a diminution in the birth-rate, as some five lacs of people had gone on military services to foreign countries. In the last decade from 1921-31 there has been recorded an increase of more than 10 per cent in our population, which is probably due to the absence of any famine or outbreak of any epidemics.

Vocational Distribution of Population

The following percentages show the relative importance of the occupations from which the people of India derive their livelihood.

Total population 3528 lakhs

No.	Occupations	Total maintains in lakhs	Percentage of total Population
1	Agriculture, farm stock and forests	2348	6.7
2	Minerals	5	.1
3	Industry	342	9.7
4	Transport	53	1.5
5	Trade	188	5.4
6	Public force	17	.5
7	Public Administration ..	28	.8
8	Professions and liberal arts	59	1.7
9	Miscellaneous, domestic servants, unproductive occupations and insufficiently described occupations	494	13.3

Distribution of population according to occupations in important countries.

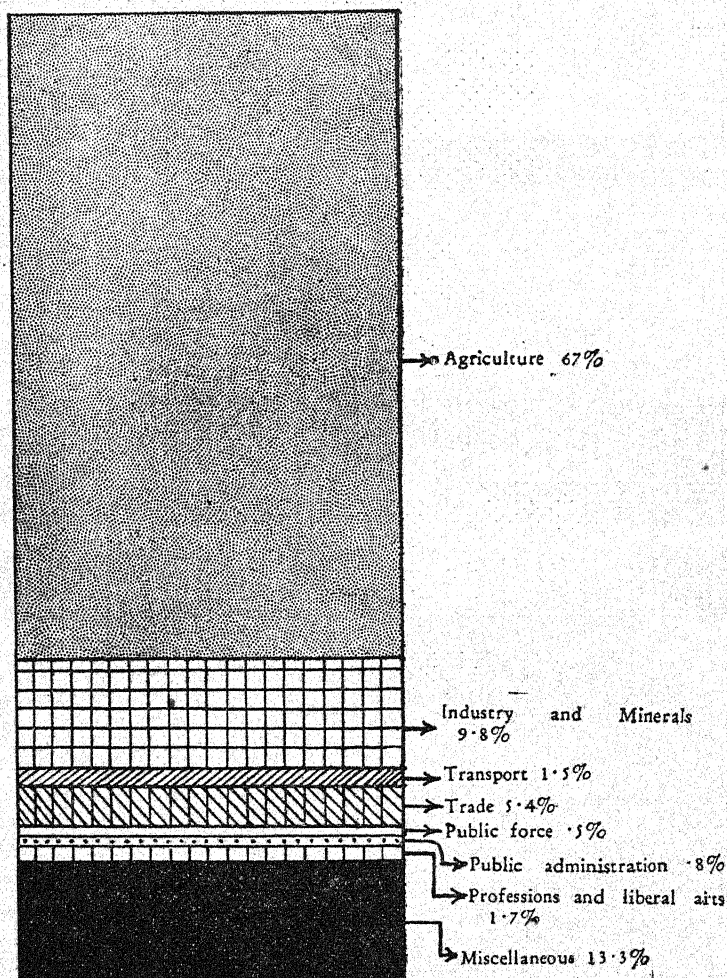
Country	Agriculture and Vegetables	Industry	Trade and Transport
India	67 per cent	9.7 per cent	6.9 per cent
U. K.	11.6 "	56.8 "	13.4 "
France	40.7 "	35.2 "	9.9 "
Germany ..	29 "	42.2 "	13.4 "
U. S. A. ..	26.7 "	33.6 "	17.6 "
Italy	48 "	27 "	12.5 "

The functional distribution of the population is an index of the stage of economic progress reached by a country. In a modern civilised country a high percentage of population is maintained by manufacturing industries, whereas, in a backward country a larger percentage of population depends upon agriculture. The figures that we have given above clearly indicate the preponderant position of the agriculture over other occupations. In every province of India agriculture easily takes the first place. The pressure on the land is continuously increasing due to the competition of machine-made articles in consequence of which large number of artisans are helplessly driven to agriculture to eke out their miserable livelihood. This entire dependence of the vast fraction of population on agriculture is a great defect of the vocational distribution of our population. For dependence on agriculture means dependence on rains and one single failure of the Monsoons throws the whole economic machinery of agricultural production, distribution and exchange out of gear, and a large number

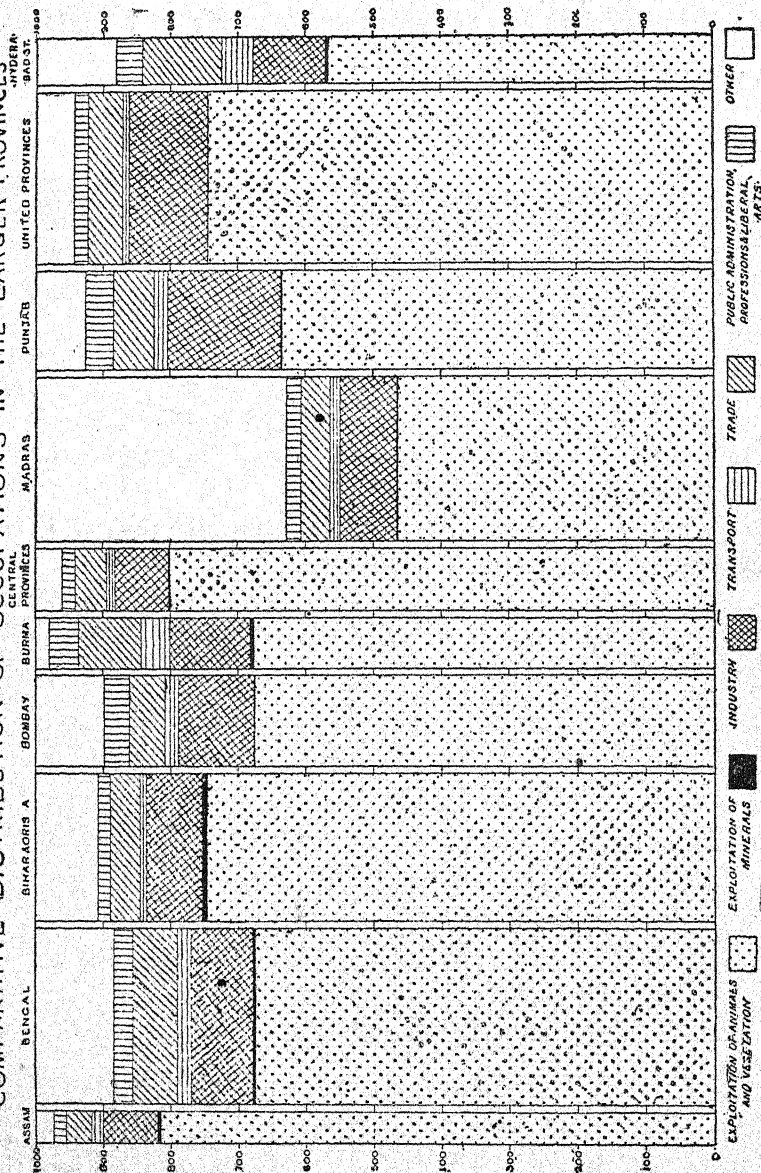
of persons are thrown out of employment with untold miseries upon the victims owing to the absence of any outlet for the employment of the displaced population. The Famine Commission of 1880 correctly diagnose the situation when they say that at the root of much of the poverty of the people of India and of the risks to which they are exposed lies the unfortunate circumstance that agriculture forms almost the sole occupation of the masses of the population, and by way of prescription to remedy this state of affairs they recommend the development of manufacturing industries.

Industries support a little less than 10 per cent of the total population but the bulk of these are engaged in unorganised industries connected with the supply of personal and household necessities and the simple implements of work. Modern organised industries support only 1.5 per cent of the population. In trade and transport on which less than 6 per cent and 2 per cent respectively depend, a considerable number of people is connected with the disposal of various kinds of agricultural products. Among the civilised countries, India has the highest percentage of people dependent on agriculture and the lowest percentage of those employed in the industries, trade and transport. It is a defective policy of our economic system to ignore the development of manufacturing industries and to concentrate all our attentions to the production of raw materials which are commonly exported to foreign countries for manufacturing purposes. Every effort should be vigorously directed to expedite the pace of industrialization and to exploit the economic resources of the land within the country itself which have been so munificently dowered by Providence. The systematic promotion of industrial enterprises will not only bring about a more even vocational distribution of population through an all-round development of the economic resources of the country, but also bring a more progressive and enlightened class consequent upon the development of industries, trade and transport, which has hitherto remained in rank ignorance and conservatism.

Distribution of Population by Occupations



COMPARATIVE DISTRIBUTION OF OCCUPATIONS IN THE LARGER PROVINCES



Health and Vital Statistics

Health is the basis of all activity and its importance in relation to wealth production in a country cannot be over-rated; the output of the stronger and the healthier persons is much more great comparatively than those of the weak who are constantly run down by diseases. This is why, today, every civilised State has equipped itself with hospitals and dispensaries for the prevention of pernicious diseases and other requisite sanitary arrangements which tend to improve the general tone of public health.

The average health of Indians is far from satisfactory. The low vitality of Indian labour is to a considerable degree the result of the general ill-health of the people caused by unfavourable climatic conditions, inadequate supply of nutritious food owing to abject poverty and low standard of living, insanitary environments and unhealthy social conditions. Several kinds of diseases and epidemics have found a very congenial home in certain tracts of India. Cholera is usually most virulent in Eastern India. Malaria is endemic in many parts of India, especially where the natural drainage system is defective. It is the most baneful disease inasmuch as it is "less a killer than a sapper of vigour and energies. It impoverishes the blood, causes all the forces of man to drop and wither, and above all, brings physical degeneration on the race it smiles." Phthisis, 'a disease of civilisation,' is particularly virulent in the industrial centres of the country which are characterised by overcrowding and insanitation and where the labourers have to put up in the most filthy and dingy hovels. This fell disease attacks people when they are at the height of their manhood and womanhood and when their services can be most productive to the community at large. Plague, kala-azar, influenza, hookworm are some of the less important diseases but terribly tell upon the health of the population. The most mischievous thing about these diseases is that they not only cause a heavy mortality among people but also affect the industrial efficiency of the entire nation by consi-

derably reducing the vitality of the people. Our villages where 90 per cent of Indian people spend their life are most defective from the point of sanitation and cannot be called idyllic places as are pictured by some of the poets in their high-strung descriptions. As a result of the general illiteracy of the masses, they are utterly ignorant of even elementary principles of hygiene and sanitation. For sceptics a mere walk to some adjacent village will make them realise the truth of our statement. Diminutive clusters of ill-ventilated mud-huts with thatched roofs are set out without any sense of symmetry or sanitation. The village rubbish and cow-dung are thrown in heaps either near their dwellings or on the outskirts of the village which stagnates and poisons the whole of the surrounding atmosphere giving rise to many diseases. The village pool, a universal possession of our Indian villages, which is further emptied of its earth annually for repairing houses when it goes dry in summers, becomes in the rainy season a good nursery capable of breeding countless anopheles where all the anti-malaria measures prove abortive.

In this connection it is very instructive and interesting as well to study the vital statistics of the country. By vital statistics we understand the records pertaining to the duration of life and the circumstances affecting its duration. A comparison of our vital statistics with the vital statistics of other countries will reveal the deplorable state of affairs. The averages of birth and death-rates per thousand for the period 1901-11 for some important countries are given below:—

	Birth-rate	Death-rate
India	.. 38.18	33.94
European Russia (1896-1905)	.. 48.47	31.41
Germany (1902-11)	.. 32.31	18.39
Japan (1900-1909)	.. 32.85	20.86
England and Wales	.. 26.8	15.15
France	.. 20.25	17.32

It need scarcely be pointed out that the exceptionally high birth-rate in our country is accompanied by an equally high death-rate so that from the point of view of population there has been much smaller increase than in other civilised countries and that too at an immense loss of time, money and energy to the parental humanity of India. People are accustomed to bring forth fresh souls into the world believing that children are a blessing and a God-given gift without making any provision for them. They ignore the principle that 'people should not bring children into the world, till they can see their way to giving them at least as good an education both physical and mental, as they themselves had.' The birth-rate is the highest in India as there is a religious sanction for universal and early marriages, irrespective of economic considerations particularly among females and among the Hindus. 'Every Hindu must marry and beget children—sons if you please—to perform his funeral rites lest his spirit should wander uneasily in the vacant places of the earth.' Early marriages of people when they are quite negligent of the responsibilities of mated existence lead to an early exhaustion in both of the sexes which is also hastened by the debilitating effects of malarial fevers to which all are subject. At an age when they should have been most enterprising they are found spiritless and bereft of all virility. The birth-rate is further aggravated by warm climatic conditions and the low standard of living prevailing in the country. Voluntary abstention from birth-control with a view to checking multiplication is almost entirely unknown in India. The death-rate is also high in India which is attributable to the chronic poverty which makes the people peculiarly non-resistant to diseases like malaria, plague, influenza, hookworm and other respiratory diseases too numerous to be dwelt upon. The high death-rate is only a consequence of the high birth-rate for the two go *pari passu*. The average expectation of life in India is very small. The census figures show that "while the average expectation of life of a male in England at birth is nearly 46 years, it is 22 years in India." The inferior longevity of the Indian

people is a great social and economic danger as the men who have gathered experience and wisdom and in whose bringing up an enormous amount of money, energy and time has been expended are carried off 'when their power to be of service to the community is at its highest.'

The two outstanding features about the death-rate in India are the high infantile mortality and the high number of female deaths at the reproductive ages. The infantile mortality is notoriously high in India when compared with other countries. In industrial centres owing to inadequate sanitary arrangements the infant mortality is still higher; for instance in Bombay it is 556 per thousand as against 60 in London. In Calcutta it is 386, Rangoon 303, Madras 282, Karachi 249, and Delhi 233. Owing to indiscriminate and early marriages many weak and rickety children are born of immature parents; they cannot survive under the best possible conditions due to their natural debility. This heavy infant mortality may be attributed to (i) the immaturity and ignorance of mothers; (ii) the physical labour and hard exertion undertaken by prospective mothers upto the very day of confinement; (iii) dirty midwifery together with certain unhealthy social customs; (iv) the habit of drugging fretful children (with poisonous pills) while mothers are at work; (v) improper feeding; and (vi) the total ignorance of the hygienic methods of rearing children. Born in dirty and polluted environments, reared on opium, bereft of fresh air and sunlight, these children have few chances of growing up healthy citizens.

Another alarming factor about the death-rate of India is the excessive female mortality at the reproductive ages (15 to 40). The prevalence of *pardah* which confines women within the four walls of the house with the consequence that they are deprived of pure and fresh air, and early marriages which subject girls to risks of motherhood at an age when they have not yet reached full physical maturity are a few of the potent causes of the high mortality. A large number of child wives 'march from the nuptial bed to the funeral pile. Nervous

debility, consumption, and the uterine diseases create havoc among them.' All this speaks of the enormous wastage of human life taking place in our country.

Table showing rate of infant mortality by age groups per 1000 live births.

	Working classes	Non-working classes
Under 1 day	.. 8	8
1 to 7 days	.. 26	38
7 to 30 days	.. 26	23
1 month to 3 months	.. 21	22
3 months to 6 months	.. 22	27
6 months to 1 year	.. 99	85
TOTAL	.. 202	203

In order to prevent the wastage of human life and the consequent ruthless operation of the inexorable law of nature, every step calculated to improve the standard of public health and increase the longevity of people should be welcome on both economic and ethical grounds. The strict enforcement of the Sarda Marriage Act, the systematic diffusion of knowledge about sanitary laws, the efficient establishment of maternity houses on a large scale, the provision of qualified midwives and medical help, strict abolition of the practice of drugging children with opium when mothers are at work in factories, the supply of good drinking water in rural areas, the free distribution of quinine and phenyl during the malarial season,—all these factors will not only go a long way in exterminating unhealthy diseases but also considerably enhance the physical energy, stamina, and industrial efficiency of the Indian people.

Efficiency of Labour in India

"It is the efficiency of labour that counts." Indian labour is generally regarded as much less efficient than the European

1 labour. Dr. Slater admits that though the inferiority of the Indian labour is generally overestimated, it is real enough, and is the cause of low wages prevailing in the country. In many types of work, an Indian labourer generally excels his Western companion but on the whole he is stamped as an efficient worker.

People sometimes disagree and maintain that an Indian labourer is not inefficient from the very beginning of the growth of the modern system of production but he has been classed as such, due to the absence of the proper understanding of the real situation. He has been made inefficient by the new environment in which he is made to work and handle those tools and instruments which he is not accustomed to use. Any person who is made to work under these conditions will be called inefficient.

2 It is undoubtedly a fact that the physique of the average Indian worker, due to poor dietary, the ravages of disease and the climatic conditions is inferior to that of an English worker.

3 The unbelievable overcrowding of workers in Bustees of industrial towns of India, dirty, damp and badly ventilated small tenements in which our labourers usually live and breed, and the most insanitary surroundings in which these buildings are situated, bring the efficiency of workers to its lowest ebb. "Bad houses spell squalor, drink, disease, immorality and crime, and in the end demand hospitals, prisons and asylums in which we seek to hide away the human derelicts of society."

4 The curse of illiteracy deprives them of hopefulness, mental improvement, intelligence and cheer, which are, as Marshall has pointed out, allied conditions of vigour and strength. Absence of technical education also contributes a great deal to the low efficiency of the Indian labourer. Conservatism of the people, their caste and religion which make labour immobile, brings about a set-back in the productive capacity of the individual worker.

5 The low standard of living of the people may be regarded as another cause of inefficiency. It is both the cause and effect of the low wages found in our country. It falls far short of

what is required for full efficiency and is barely enough for sustaining bodily strength and vigour. The worker cannot afford a sufficient quantity of wholesome food, his clothings are scanty while his expenses on education are almost nil.

The evil of drink is a great bane to the working classes inasmuch as it impairs their vitality and efficiency, and renders them poorer consumers than they might have been.

The habit of absenteeism, the casual nature of work and the fact that an Indian labourer is also an agriculturist, retard the growth of a permanent and efficient labour force in India.

Remedies

The attempts to make labourers live a better and a fuller life are full of promising results. Efforts are being made to provide better housing facilities to Indian labourers. These improved lodgings, the sanitary surroundings, pure drinking water and fresh air will have a remarkable effect upon the physique of the labouring classes resulting in increased efficiency.

Provision of facilities for general and technical education will lead to increased efficiency and better understanding of the work. It will develop his intellectual qualities, broaden his outlook and make him more hopeful and less conventional.

Attention should be directed to increase the standard of living of the labouring classes. With increased wages and other welfare arrangements, it is hoped, the condition of the worker will improve materially. Increase in efficiency would come through a better standard of living.

An improvement in sanitary and hygienic conditions, the prohibition of overcrowding within the factories, the provision of adequate medical help to the labourers and the prevention of many dreadful diseases found in labour Bustees and slums of the industrial towns, will go a long way in improving the condition of the working classes. In industrial provinces a special Health Department to deal with industrial Hygiene and disease should be started. Maternity Benefit Acts, the provision of creches for the use of children and an Institute of Nutrition are

other desirable reforms needed by our labourers.

Extensive welfare arrangements to utilise the worker's leisure time and to make him contented and happy have been started by many employers, Local Boards, Trade Unions and other social Institutions. Various Acts passed by the Imperial and Provincial Governments to protect the labouring classes and the activities of the International Labour Office are affecting very desirable improvements in the condition of the Indian worker.

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CHAPTER XII

CAPITAL

Definition of Capital

Besides the primary requisites of production, land and labour, there is another indispensable factor of production, viz., capital which has come to play a very important part in the modern industrial organization and 'without which no productive operations beyond the rude and scanty beginnings of primitive industry are possible.' Capital as a factor of production is defined as that form of saved wealth, other than land, which instead of being directly consumed in the satisfaction of present wants, is employed productively for future wants. This form of saved wealth which 'fills our factories, farms, store-houses, and docks,' is not capable of providing satisfaction directly to our wants. Such wealth is devoted to the production of consumable goods. Taussig aptly observes: "Capital, then—that is, producer's capital—is not in enjoyable form; it is not now a source of satisfaction. It exists for the purpose of increasing consumer's wealth." There are two ways of disposing surplus wealth over one's present requirements; either he can devote it directly in the satisfaction of his immediate wants whose number is legion, or he may set it aside and keep it for further production with the intention of meeting his future needs. Saving in the form of simple hoarding, however, does not lead to the creation of capital because it may or may not be utilised for the production of consumable wealth. Capital is, therefore, regarded as that part of an individual's saving which is utilised with the purpose of getting a future income. In this sense, capital would consist of all invested money in productive concerns, tools, implements and instruments, machines, build-

ings, and plants, etc., utilised in the act of production with a view to secure benefits in the future rather than in the present. Thus all capital is wealth, though all wealth is not capital. Capital is an instrument of production while wealth is merely an object of consumption. The conception of capital, according to Marshall, involves two fundamental attributes of "productiveness" (i.e., yielding an income) and "prospectiveness" (i.e., the idea of waiting and saving), while wealth suggests the idea of consumption and pleasure derived from possession.

"The idea of capital does not connote a certain *class* or *kind* of goods, but a certain *condition* or *purpose* of goods. All wealth may at sometime or other become capital, just as every physical element may, at a certain degree of temperature, become a gas. The feature, *condition* or *purpose* that makes wealth capital is its *productive use in conjunction with labour*." A horse maintained for cultivating the soil and transporting the harvested crops is capital for it is an instrument of production to the cultivator, but the same horse if begins to be used for taking mere pleasure trips would be classed as wealth. Similarly, if a farmer, out of his granary, spends some amount of grain in feeding himself and his cattle, in paying wages to his labourers, or in using it as seed, it is capital, but it is not capital if it is given away in charity. Again, the same goods may be capital to one while consumption goods to another. A harmonium is a consumable wealth to one who plays upon it for the sake of pleasure and recreation, but it is capital to a professional musician.

Origin of Capital

Capital is a stored-up labour. Suppose a grass-cutter who earns his living by the sale of grass gathered by him with the aid of his hands finds that he can cut more grass and earn more wealth if he had a reaping-hook to cut grass instead of gathering it by hand. Realising this, he begins to save, say one pice a day out of the income that he daily gets and after a week he accumulates a sufficient amount to purchase a reaping-hook from the blacksmith. This reaping-hook, which is nothing but

a material form of his past labour, makes his efforts more productive inasmuch as he is enabled to earn more income with the same amount of labour and time he expended previously to the getting of a reaping-hook. The same principle holds good in all the kinds of capital—tools, machinery, ploughs and countless number of other things which are being used in the production of consumable goods. "The production of capital involves the sacrifice of the present enjoyments that the command over a certain amount of labour could give for future satisfaction which the investor expects to derive from his outlay; it always presupposes a preference for future goods rather than for present enjoyments, and it involves a sacrifice of the present to the future." Capital, therefore, is the result of abstinence as well as production. By 'abstinence' we mean nothing more than abstaining from present enjoyments in order to secure some future end. Saving helps the growth of wealth but not the formation of capital.

Forms of Capital

✓(i) *Fixed and Circulating Capital.* Capital is classified into two different forms. Circulating capital is that which can be used but once, or, as John Stuart Mill states, 'that which fulfils the whole of its office in the production in which it is engaged by a single use.' Coal used as fuel, the wages of the workers, manure that is mixed with the soil, store of food for the support of labourers, leather made into boots, steel made into a safe, raw cotton converted into cotton cloth, seed sown in the field are examples of circulating capital. Capital which exists in a durable shape, renders continuous services and the return to which is spread over a correspondingly greater length of period is called 'Fixed Capital;' examples of this kind of capital are factory buildings, tools, machinery, canals, tunnels, and railway trucks which render a continuous service to the owner.

(ii) *Trade (or Production) and Consumption Capital.* Production capital includes all those things which are used for

productive purposes such as raw materials of manufacturing industries, or tools and machinery needed in any act of production, or fences, drains and barns on an agricultural farm or sheds, offices and factory buildings where actual work of production is carried on. Consumption capital, according to Marshall, consists of goods in a form to satisfy wants directly; that is, goods which afford a direct sustenance to the workers such as food, clothes, house-room, etc. Consumption capital must be distinguished from consumption wealth as the former is consumed mainly for the maintenance and improvement of health which is necessary for the efficient work, whereas the latter is taken merely for the sake of pleasure and enjoyment.

(iii) *Specialised and Unspecialised Capital.* They also go by the name of *sunk* or *floating* capital. Specialised or sunk capital is that which can be used for only one particular process and cannot be withdrawn from the investment without loss, the best example of which may be cited of the capital invested in tunnelling a railway line. Capital is said to be unspecialised, free or floating when it can fulfil more than one function, and can easily assume a different form, e.g., money, fuel and raw material.

(iv) *Material and Personal Capital.* Material capital includes concrete and tangible goods which are used in production and can be transferred from one person to another such as a carpenter's tools or a surgeon's instruments. Personal capital comprises an individual's skill, efficiency and ability which cannot be transferred. The skill of a lawyer and the melodious voice of a singer are examples of *personal capital*.

Functions of Capital

Capital has come to play such an important part in the modern industrial organisation that the present age oftener than not is regarded as the regime of capitalistic production. In this age of *roundabout methods of production*, capital has become a most important requirement of the productive effort. By roundabout process of production we mean that the pro-

duction of goods is not direct, as in the primitive stage, but that the productive process involves the use of tools and machinery, and a prolonged interval of time is taken between its inception, and completion. In order that capital may fulfil its functions, it must be consumed; its existence depends not on its preservation and retention, but on its being used up, whether rapidly or slowly. In his book, *Elements of Economics*, Thomas has summarized the functions of capital in the following manner.

1. *The provision of subsistence*, in the form of food, clothes, shelter, maintaining the labourers and producers while they await the results of their efforts. Under modern conditions, productive processes are long and roundabout hence the provision of subsistence is an important factor.

2. *The provision of appliances* essential to production, and now-a-days necessary to enable production to be speedy, accurate and automatic; to relieve the worker of drudgery, fatigue and over-exertion; and to correlate the various productive agencies.

3. *The provision of materials*. The materials of industry are today of the utmost variety and complexity, and include not only such raw products as are derived from nature but also semi-manufactured and manufactured articles which are utilised as the raw materials in yet another stage of industry and manufacture.

✓ Efficiency of Capital

The efficiency of capital depends upon (i) its fitness as a factor of production, and (ii) the method in which labour is applied to it.

(i) "Fitness depends on the suitability of the capital to the purpose in hand." The size of the factory building and the working capacity of the plant and the machinery should depend on the quality and quantity of work to be turned out. A large sugar factory equipped with modern machines for crushing one or two thousand maunds of sugarcane throughout

the whole of the season is purely a perverted economy. Similarly, a small plant would prove inadequate from the point of efficiency for the production of materials on a large scale. A new or up-to-date machine is generally far more efficient and economical than a worn or old-fashioned one because with the same amount of labour the former can produce a larger quantity and better quality of goods.

(ii) In the previous chapter while discussing the efficiency of labour we had the occasion to point out that it is largely affected by the nature of the capital with which it is employed; similarly, the efficiency of capital is greatly affected by efficiency of labour. The best of machines or the best of materials would prove futile if handled by unskilled labour. A bad workman quarrels with his tools. An inefficient workman brings about not only much waste of raw materials and greater wear of machinery through his careless handling but he at the same time incurs the risk of running into serious accidents through negligence or inability to keep pace with the regular movements of the machine. Hence the efficiency of capital is interdeveloped.

✓ Is Land Capital?

From the social point of view land is not included under capital for some obvious reasons. True, it is a necessary instrument of production but it differs from capital goods inasmuch as the former is a free gift of nature, the amount of which is limited definitely and it is beyond human ingenuity to increase its quantity, whereas the latter are the product of labour. To the objection that much land has been so improved by human effort that it is no longer a free gift of nature, it may be pointed out that we, in accordance with our definition, classify all improvements in land such as fencing, drains, and wells, etc., as capital while place the land itself in a separate category. Again, in contrast with land, capital goods, wear out and require constant repair and replacement. Land does not wear out. To the objection often raised that fertility of land also wears out,

it may be said that this is not true in respect of the area and the situation of land which need no repair or replacement.

Growth of Wealth and Capital

The causes and conditions which determine the accumulation of capital differ extensively in different countries and at different times and even among the same people. Capital represents a surplus of production over consumption and so the process of the growth of capital consists in the increase of the fund of wealth from which savings may be made, and the determination on the part of its owners to refrain from immediate consumption and to divert wealth into productive channels. The maximum limit beyond which the total capital of a country cannot increase is determined by the surplus of the national dividend over the total wealth consumed. The chief conditions which favour or retard the accumulation of capital are three:—

1. The power to save.
2. The will to save.
3. The opportunities to save.

1. The power to save implies an excess of income over expenditure, such as may occur from increased production or more economical consumption. The power to save depends upon the following factors.

(i) *Natural resources and powers.* If a country is rich in her natural resources such as climate, mineral wealth, forest wealth, water-power, good harbours, etc., it will have greater wealth and, therefore, a greater capacity to save.

(ii) *Efficiency of labour and capital.* The existing stock of labour and capital within a community determines the production of wealth and, therefore, the accumulation of capital likely to take place in the near future.

(iii) *The share taken by the government.* Out of the national dividend, if larger amount of money is taken away by the government in the form of taxes, etc., then to such an extent the power of the people to save will suffer.

(iv) *Means of transport and communication.* These reduce

the cost of marketing and bring the conditions of distant market within easy knowledge and cause a free mobility of labour and capital thus adding to their efficiency and increasing the total wealth of a country.

In India accumulation of capital is very slow because the power of the people to save is very little. Due to the want of proper exploitation of the natural resources and the full utilisation of the modern methods of production people hardly get any surplus above the bare necessities of life.

2. But mere power to save is of little consequence unless it is supplemented by the will to save. By will to save we mean the readiness to save when one is provided with surplus income over his expenditure. The will to save depends upon many factors which are chiefly mental.

(i) Some people are thrifty while others are improvident by nature. Prudent persons who possess sufficient foresight into the future put aside a part of their income as a reserve against the rainy day, and abstain themselves from the immediate consumption for the sake of fuller enjoyment in the future. This will-power to save is much more strong in civilised persons than in savages. In India, we have the element of foresight in substantial measure among the middle class people who have greatly succeeded in accumulating capital.

(ii) *Moral qualities.* A man's moral perceptions may not be strong enough to induce him to save. One who has no strong interest in others, or sufficient affection for the members of his family or no desire to avoid dependence in old age, will save less than another person in whom the above desires are very strong.

(iii) *Hope of rising in social scale.* In modern societies the possession of accumulated wealth counts much inasmuch as it gives power over other men in the economic sphere and increases the prestige in the political and social arenas. Many ambitious people toil in the pursuit of wealth not for its own sake but for the power that wealth carries with it and thus indirectly and substantially contribute towards the increase

of the country's capital.

3. Opportunities to save depend upon the following factors.

(i) *Security.* Saving is encouraged where there is security of life and property and where people are confident of fully enjoying the fruits of their savings. Obviously, no person would save if he is constantly harassed by such factors which would deprive him of his savings. The presence or absence of the following factors determines to a very great extent the growth of wealth in a country.

(a) Stable government which would maintain law and order in the country and keep people immune from violence, fraud, theft, communal riots and Foreign aggression; (b) Security against the exactions of the state itself; these may be arbitrary or tyrannous such as high taxes, inefficient judicial system and bad laws; (c) Physical security such as from frequent visitations of earthquakes and volcanic eruptions, floods and storms, famines, etc.; (d) Security against social rites and customs which favour lavish expenditures; (e) Economic security such as complete absence of tyranny of capital over labour, of landlords over tenants and serfs, of custom preventing free choice of occupation, etc.

(ii) *Facilities for investment.* With the increase in the facilities and means for investment, where people can deposit their earnings without any fear of loss more savings will be encouraged. Banking institutions such as private and joint-stock banks, savings bank, assurance companies, co-operative credit societies are very important for encouraging the accumulation of capital.

(iii) *The rate of interest.* In many cases men are also encouraged by the interest which they get on their savings. Other things being equal, the higher the rate of interest (i.e., the greater the reward of waiting) the greater will be the willingness of persons to wait and to save capital by postponing present enjoyments. A high rate of interest will stimulate people to save more and thus help the accumulation of capital.

English writers have often branded Indians with the habit of hoarding. But they forget that long before the establishment of British supremacy in India there was no security of life and property which is an essential factor for saving. During the decline of the Mughal Empire and the beginning of the Company's rule, the country was torn by anarchical conditions of life and devastated by incessant wars and plundering bands of marauders, and the ever-recurring calamities of the ravages of famines in one part of the country or the other completely broke down the backbone of the Indian peasantry. All these unfavourable factors tended to make the people more improvident, as they had no security to realise the fruits of their savings. In such anarchical times people cultivated the habit of hoarding their valuables which could be easily hidden and used when needed, but due to ignorance and lack of good opportunities to save this habit still survives though the need for it has passed away. Our vast majority of people, who live in villages far from the cities, are quite ignorant of the safest form of investment. In order to tap the meagre resources of the poor agriculturists and to teach them thrift and frugality, more co-operative credit societies on an extensive scale may be started—the only solution by which we can make the dormant resources of the people an effective instrument of production.

Machinery

The rapid invention of new machines marked the beginning of the Industrial Revolution and brought about a total transformation in the methods of production. As long as the motive force remained unutilised these new machines could not make much headway. But with the utilisation of steam-power and electricity, the machine era progressed with the greatest rapidity accomplishing unimaginable and insurmountable feats in the sphere of production.

Its Advantages

(1) Heavy, arduous and complicated tasks which were

beyond the muscular strength of man, are now quickly, conveniently and satisfactorily accomplished through the aid of power-driven machinery. Machinery, thus, diminishes the strain on human muscles and relieves men of the grievous fatigue and certain disagreeable kinds of labour that were extremely distasteful. For example, the steam hammers have done a great deal to relieve the blacksmith from the heavy and arduous task of hammering red hot iron.

(2) Machinery takes up routine and monotonous work and lessens the monotony of life.

(3) As machinery exactly repeats its movements with amazing rapidity and wonderful precision, therefore, work can be done much faster, and far more accurately and uniformly than by human labour. In 1895, with manual labour it took 216 hours to print and fold 36,000 pages of a newspaper while today with the newest type of machinery the same amount of work can be accomplished in an hour with greater ease and efficiency. Thus, machinery leads to greater efficiency and increased production of wealth.

(4) Machinery not only relieves the strain on human muscles but also accomplishes extremely delicate kind of works most easily, quickly and finely.

(5) Formerly, the work which required special skill and could be done only by skilled workers is now performed by workers of average skill and ability owing to the simpler operations made possible by the introduction of machinery.

(6) Machinery has enabled the production of 'interchangeable parts.' Machinery can manufacture on a large scale identical machine parts which are perfectly flawless and easily interchangeable as a result of which the usefulness of machinery has immensely increased. Formerly, when any part of a machine was broken, either the whole of it had to be discarded or taken back to the workshop.

(7) Machinery has greatly facilitated the mobility of labour from one trade to another by weakening the barriers between different trades because of the apparent fact that many

machines which are in use in one industry are similar in general character to those used in many other industries.

(8) As a rule every mechanical invention increases the output enormously at a lower cost thus benefiting the consumer class as a whole.

(9) It goes without saying that machinery has widened the human outlook and elevated the quality of labour by demanding greater intelligence, resourcefulness, responsibility and character among operators. "The more delicate the machine-power, the greater is the judgment and carefulness which is called for from those who look after it. A machine man today is more trustworthy, able and highly paid than the labourer under the old system."

(10) Machinery enables us to utilise the forces of nature, e.g., wind, water, steam and electricity for the benefit of mankind.

Disadvantages of Machinery

Every problem has two sides and machinery is no exception to this universal formula. There are some schools of thought which are too accustomed to paint its horrid side completely forgetting the advantages it has conferred upon mankind, and which deplore the introduction of machine production on the grounds that its adoption has brought in its train 'moral degradation' and 'intellectual desolation' causing tremendous hardships to the labouring classes.

1. The most important objection that is often made by the antagonists is that the advent of a new machine in an industry displaces labourers throwing them completely out of employment which means starvation and misery for the displaced labour. But it is a questionable argument not actually proved by facts. It has been stated that but for a temporary period, machinery instead of displacing labour considerably increases the room for employment. The displaced labour is absorbed in the same or in other industries. Machinery owing to its quick and large production considerably diminishes the

cost of production leading in many cases to the increased sale of commodities, which creates a greater demand and, therefore, employment for labour. Secondly, the absorption of the displaced labour is made possible, as some workers are employed in the construction and repairs of this machinery. Lastly, the cheapening of articles manufactured by the machinery leaves buyers more to spend on the purchase of other commodities, whereby the displaced labour is enabled to get into those industries. However, it must be admitted that a permanent loss is sometimes inflicted through the introduction of machinery on particular classes of labourers who have acquired by experience and training special kind of skill and delicacy of touch. Prosperous weavers of India whose fame was far renowned throughout the civilised world and others engaged in handicrafts and cottage industries have been with the importation of cheap machine-made goods from the foreign countries helplessly thrown out of hereditary professions only either to be perished in semi-starvation or driven to join the ranks of unskilled labourers never to recover from its fatal blow. Again, the "long run" argument affords no relief to those who suffer in the "short run."

2. "Many people object to power-driven machinery" says Prof. Chapman, "because they dislike its present consequences in the form of huge dreary towns overhung with a pall of smoke." Machinery gives rise to large crowded cities and degraded slums wherein labourers have to live in cramped, dirty and dingy apartments which are prejudicial to their health and happiness. But these depressing consequences are removable and have been already removed in a substantial measure in the advanced countries of the world. There are many industrial centres which are a complete contradiction of the view that big industrial towns must necessarily be associated with congestion, soot and squalor. "The advent of the garden-city movement, the spread of the doctrine of town-planning and the municipal control of the location of factories in Great Britain, Germany and America, have clearly demonstrated that the present con-

fusion and disorder in our cities are due, not to any inherent defect in large-scale production, but to the misdirection of industry and the absence of that control and guidance which are necessary in a transitional stage of such importance."

3. Nor does there seem to be any truth in the contention that the use of machinery banishes artistic quality from our products, undermines taste and brings about ugliness in our surroundings. It may be replied to this argument that the bad effects are not caused by the proper use of machinery but by its abuse. Little artistic feeling can be expressed in making plain articles of daily use. On the contrary, it furthers the cause of Art inasmuch as it can repeat artistic designs cheaply and thus bring them within the reach of the masses. Moreover machinery, today, according to S. E. Thomas, "has reached an almost inconceivable state of delicacy of touch and perfection of execution; it is capable of minute work to a degree which man can never equal."

4. As machinery wipes out of existence the handicraft artisans, it necessarily reduces the number of master craftsmen who took genuine interest and pride in their unrivalled work and tried to maintain the high quality of the product. But today the worker is reduced to the position of a mere feeder of machines without any interest and enjoyment. Certainly, the worker's life becomes monotonous but as regards his enjoyments it may be argued that indirectly with his increased wages he can enjoy better varieties of life.

5. Machinery gives rise to large-scale production which brings in its train over-production due to mis-calculations of demand in the market resulting in serious trade crisis and unemployment of labourers who are faced to accept by necessity lower wages with a consequent fall in their standard of living.

6. It is also argued that the employment of women and children in factories which is made possible by the introduction of machinery is too degrading both physically and morally. But the criticism seems to lose much of its force inasmuch as their employment can be prohibited by legislation and the

attendant degradation can be easily arrested.

7. Other critics declaim against factory life on the ground that the use of machinery under proper conditions is impossible and that machinery always leads to degraded and unhealthy life both physical, mental and moral of millions of persons. To them the old system of handicrafts and cottage industries means less wealth for the nation but more welfare, and the modern system of machine-driven mills and factories is a symbol of social degeneration.

By way of concluding remarks, we may say that there has grown a tendency to exaggerate the evils of machinery which in actuality are temporary and remediable. There is nothing inherently immoral in a machine; it exactly like a hand tool aids man in production with the sole exceptions that it turns out commodities on a much larger scale and with immensely increased efficiency. It would not be out of place to quote the opinions of Karl Marx, the great socialist leader of the nineteenth century, who always espoused the cause of the down-trodden labourers. He does not object to the use of machinery in recognition of its immense advantages, but objects most vehemently when it is employed by the capitalist employer for the unholy exploitation of labour. He writes: "Since, therefore, machinery considered alone, shortens the hours of labour, but, when in the service of capital, lengthens them; since in itself it lightens labour, but when employed by capital heightens the intensity of labour; since in itself it is a victory of man over the forces of nature, but in the hands of capital, makes man the slave of these forces." The advantages conferred upon mankind by machine production are too numerous to be dwelt upon, the absence of which would have left the world considerably poorer. It is due to the large and cheap production of commodities with the help of machinery including other new forces of organisation that the luxuries of yesterday are tending to become the necessities of today. Machinery has produced evils because labourers have been forced by sheer necessity to become its dumb servants. Machinery should be organised for

the benefit of all and it should be made the servant of labour and not *vice versa*. It is earnestly hoped that with the growth of social conscience and developing democracy, temporary abuses such as long hours of work, exploitation of child and female labour, insanitary conditions of work, over-crowding of people in unhealthy cities, frequent industrial accidents and unhealthy physical, moral and social conditions of industrial centres, which are associated with industrial life, will be wiped out of existence at no very distant date.

CAPITAL IN INDIA

Agricultural Capital.

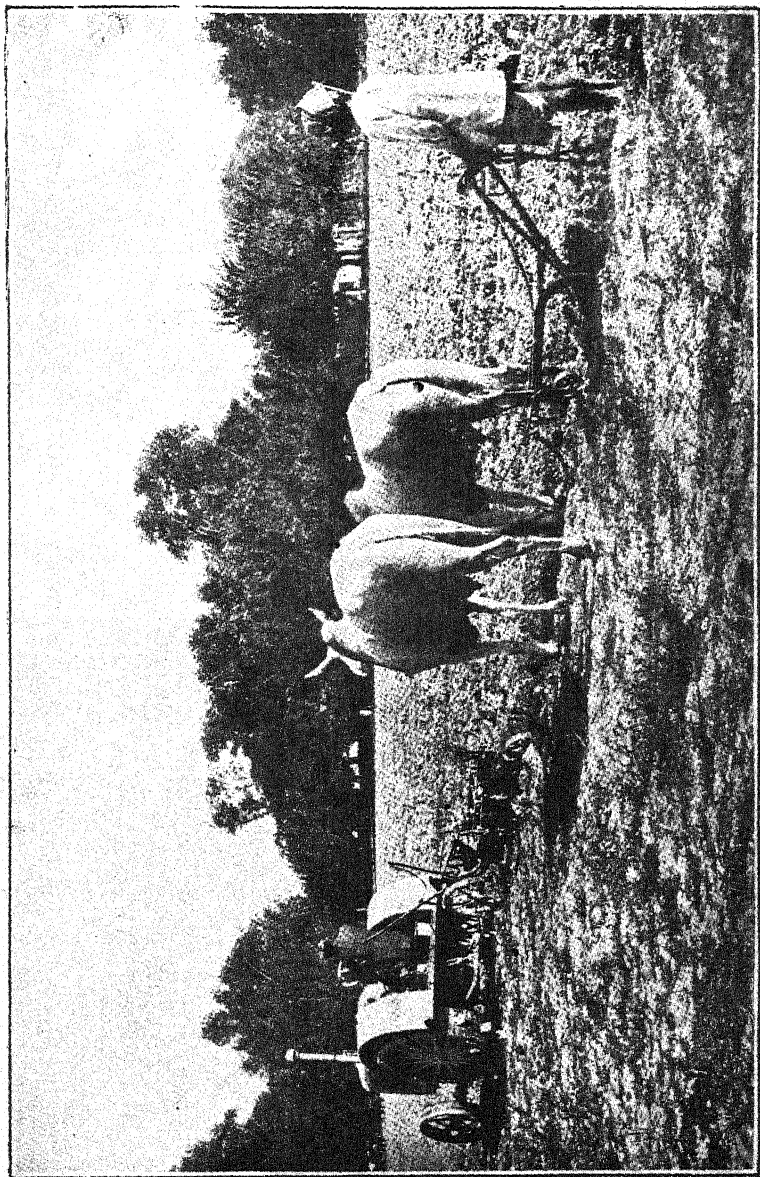
Nature has showered her bounties on the country with a lavish hand, but man in India owing to the paucity of capital has failed so far to profit by these adequately. A brief glance on the agricultural industry which is the primary industry of India, will convince us of the fact that India is the most backward country in agriculture having probably the lowest yield and smallest profits per acre of all the civilised countries. Agriculturists still adhere to the old ways of cultivation which involve a terrible wastage of their productive efforts and of the natural resources as well.

Cultivation in India is carried on with a minimum of capital. Practically speaking, there is no saving of capital due to the backward and inefficient farming which leaves a very little margin of surplus above the necessities of life. Owing to the absence of any proper agency which can finance agriculturists at the time of sowing or any other emergency except a few co-operative credit societies here and there. The Sahukars and Mahajans take the advantage of peasant's ignorance and necessity and unscrupulously charge exorbitant rates of interest from the crushing weight of which he can never find his escape.

An agriculturists' capital consists in the form of farm implements which are comparatively few in number, simple in kind, smaller in size, obsolete in character, and very insignifi-

cant in value.' They are light, portable and within the capacity of draught oxen. His capital in the shape of instruments of production includes (i) the plough and the ploughshare used for the upturning of the soil, and driven by either a pair of bullocks or a pair of bull-buffaloes. The antiquated plough is such that it scratches only a few inches of the upper surface of the soil and does not invert it. The main advantages of the light Indian plough, as recognised by even eminent authorities are that it is within the haulage capacity of ordinary draught animals, and secondly, its cultivation does not lead to the evaporation of moisture which is lacking in the Indian soil owing to its dry nature and the seasonal character of the rainfall; (ii) the wooden yokes in which bullocks are yoked either for hauling the plough or at the time of lifting water from the wells; (iii) the seed-drill which is generally made out of a long, hollow piece of bamboo with a funnel at the upper end, facilitates even distribution of seed into the newly-made furrows by the plough—to the handle of which this implement is tied while sowing; (iv) the *pata* or the leveller used for levelling the field preliminary to sowing; (v) a massive wooden roller used for crushing clods; (vi) a *chersa* (a big leathern bucket) for drawing water from the wells; (vii) a big and heavy rope; (viii) a wooden structure of strong logs of wood raised on one side (if the well is a broader one more can be raised) for drawing water, upon which a pulley is set which facilitates the movement of the rope fastened with the leathern bucket; (ix) a spade or *kbudari* used for irrigating and digging purposes and to some extent in assisting the ploughs; (x) the *kburpi* (trowel used for weeding, and spacing out); (xi) the *basia* or the sickle used for harvesting; (xii) the *jeli* or five-fingered fork used for upturning the harvested crop when it is being trodden by the feet of the bullocks for separating the chaff from the corn; (xiii) a long, rough thick-woven cloth used either in covering the crop on the threshing floor from rain or winds or in taking corn to the market; (xiv) the cart used for transporting purposes, but owing to its prohibitive cost it is not within the

reach of every peasant. The total number of carts in India amounts to over half a crore; (xv) the grain set aside for sowing the next crop. At present, owing to the extreme indebtedness of the peasant he is forced to part with all his produce at the threshing floor and when the time of sowing comes he resorts to the mahajan who provides out of his *khatti* any quality of grain the appreciable part of which when sown fails to germinate. Recently, the Agricultural Department has introduced certain new and high-yielding varieties of grains which have found much favour with our Indian farmers, wherever their utility has been clearly demonstrated to them; (xvi) the farm manure for renovating the exhausted properties of the soil. But the major portion of the farm-yard manure—which is the commonest type of manure used in India—is used as fuel and whatever remains, it is preserved and applied in such a wasteful manner that the real utility of it when it goes back to the fields completely vanishes away; (xvii) wells. The sinking of wells is beyond the means of an ordinary cultivator; the number of wells used for irrigating fields is small owing to the paucity of funds with the agriculturists, and many of them are *kutchha* wells the water-yielding capacity of which is ridiculously small; (xviii) cattle constitute a valuable possession of the cultivator. The live-stock represents the largest item of India's agricultural capital and it supplies not only energy to the agriculturists but also many raw materials for the development of various manufacturing industries. But the breed of the capital is much deteriorated and epidemics cause appalling mortality among cattle, rinderpest alone contributing to over one lakh deaths annually. The Imperial Institute of Veterinary Research at Mukfesar and the Imperial Veterinary Serum Institute at Izatnagar (Bareilly) are doing noteworthy work in combating the various cattle diseases such as rinderpest, foot and mouth, haemorrhagic septicaemia, black quarter and anthrax. The absence of an adequate supply of fodder grazing grounds is the root cause of the degenerated quality of the Indian cattle.



STEAM TRACTOR AND MODERN PLOUGH AT WORK

Thiemois-1914

King Christian College

College of Arts and Sciences

For the year ending
Jozel March Day
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First Day

With such inefficient methods of tillage, crude ways of water-lifting arrangements, inadequate and deteriorated quality of manure, unsatisfactory provision of seeds, and insufficient and inefficient possession of cattle power, it is no exaggeration that the agricultural yield per acre in India is very low in comparison with other countries where farming is carried on with the most up-to-date scientific methods. It is now being increasingly realised that the progress of the nation is intimately bound up with the development of agriculture and the progress of villages wherein lies the soul of India. Although it is not advisable nor feasible to introduce wholesale labour-saving machinery in Indian agriculture, yet the improved type of implements like the modern iron ploughs, machines for chopping fodder, installation of machinery, particularly for irrigation and cane crushing purposes will considerably enhance the productive efficiency of the agriculturists and improve the quality and the quantity of the produce. The introduction of the Western type of costly agricultural machinery driven by motive power is not possible in India owing to the peculiar conditions found in our agricultural industry. The peculiar conditions of the cultivator require cheap and handy implements which are easy to understand, and in order to ensure full benefit from the improved implements, it is considered necessary that they should be manufactured in the country itself and full provision should be made for the supply of spare parts and facilities for repairs.

Large-scale Manufactures

Indian capital is regarded as timid, shy and conservative. But these epithets hardly apply to it in the present state of India's awakening when it has slowly but steadily found its way in modern industrial enterprises and tended to seek new channels. No doubt, owing to the paucity of competent managers and organisers of commercial businesses and industrial enterprises and the lack of proper banking facilities in rural areas, the growth of capital is greatly retarded but

it must be said that it is showing a remarkable development both 'in point of adequacy and venturesomeness,' especially since the war-period. That the Indian capital is shaking off its proverbial shyness is evidenced by the increase in government rupee loan, and in the paid-up capital of joint-stock companies registered in India. The fact is that people have now begun to realise the advantages of investment and if improved banking facilities on any extensive scale and competent entrepreneurs equipped with requisite experience and training are forthcoming, it will grow less and less timorous and it may be confidently expected that one day it will completely oust the dominance of foreign capital.

Cotton Industry

The first cotton mill was started in Calcutta in 1818 and the first mill in Bombay was established in 1854. Since then the industry has developed considerably in spite of occasional vicissitudes due to famine, plague, foreign competition, fluctuations in the foreign exchange and prices of cotton, etc.

The industry employs a capital of about Rs. 43 crores. The most satisfying feature of the industry is that it is mainly capitalised and managed by Indians.

In the initial stages of its growth the principal product of the cotton mill industry was yarn meant for the consumption of the hand-loom industry and for export to China. But owing to the decline of the China trade in yarn, the cotton industrialists concentrated their energies on the production of both yarn and cloth for home consumption. The progress of the industry during the Great War and since has been especially phenomenal. The Swadeshi Movement has also given a great impetus to the industry which has considerably advanced in spinning and weaving—specially of finer counts. Owing to the absence of fine American type of cotton, our industry is suffering a great handicap as it cannot manufacture fine-textured fabrics. Recently the keen competition of Japan in piece-goods has greatly threatened the very existence of the industry. The

Government of India owing to heavy depreciation of the yen, levied a very high duty on cotton goods imported into the country. Most of the cotton mills are found in the Bombay Presidency the important centres of production being Bombay city and island, Ahmedabad, Sholapur, Surat, Broach and Jalgaon. More than two hundred cotton mills working in the Bombay Presidency employ in all about 2,32,000 persons; the rest of the mills are distributed over many provinces and states.

Sugar Industry

"The arts of preparing, refining and crystallizing raw sugar have been practised in India from ancient times; but gradually India went on importing more and more sugar from Mauritius and Java." The indigenous industry was hit hard by the foreign cheap sugar, but survived till now only due to the religious sentiments against the imported sugar. The Indian Sugar Committee, of 1920 was of opinion that "it should be perfectly practicable to produce the whole of the present import in India itself and that to the great benefit of India and indirectly to the rest of the Empire."

Helped by an adequate tariff wall, the introduction of improved varieties of cane and the increase of area under cane cultivation, the industry has made phenomenal progress in recent years. There were 146 modern sugar factories in 1936-37 as compared to 32 in 1931-32, while import of sugar from foreign countries is estimated, say, to be 2,20,000 tons as compared to 901,000 tons in 1931-32. The total production of sugar in India was about 835,000 tons in 1936-37, while consumption of sugar in India during the same year was estimated to be 930,000 tons. It is of interest to note that the production of gur is also increasing since 1931-32, when it was 2,77,2000 tons as compared to 3,89,2000 in 1935-36.

Really speaking, the growth of the Indian sugar industry starts from the year 1930-31, when a duty of Rs.7-4-0 per cwt. on imported sugar was imposed by the Government. This duty was further enhanced to Rs. 9-1-0 per cwt. in 1932. With

a view to check the rapid growth of the industry and in order to replace the loss of revenue from this source, an excise duty of Rs. 1-5-0 per cwt. on factory produced sugar and As. 10 per cwt. on Khandsare sugar was imposed in 1934. In spite of a great opposition from all quarters, the Government increased the sugar excise duty to Rs. 2 per cwt. with effect from April 1, 1937.

A new fillip to sugar industry has been given by the Government on the 11th March, 1937 by formally opening the Imperial Institute of Sugar Technology at Cawnpore. It is intended that the Institute should, undertake research on sugar technology, deal with the utilisation of by-products, test the new varieties of cane and solve the general problems of sugar engineering and chemistry. Research work, with promising results, has been carried out on the utilization of molasses for the manufacture of cattle feed, road making, manure and the preparation of acetic acid.

The Indian sugar industry is now the second largest industry—next to cotton textile industry—giving employment to more than 200,000 workers.

Jute Industry

The jute industry is confined to the banks of the Hoogly near Calcutta within a radius of forty miles. India enjoys a virtual monopoly in the production of jute and its manufactured products. The first jute spinning mill was erected at Rishra near Serampur in 1855 and the first power-loom was introduced in 1859. The Great War which created an intense demand for such jute manufactures as sand bags, canvas, corn sacks, hessian and gunnies led to a considerable expansion of the industry resulting in handsome profits. A considerable portion of the raw jute is consumed by the jute mill industry while some of it is exported to Dundee which is our serious rival in jute manufactures. The industry has a record of uninterrupted progress and prosperity, until of late when owing to the world trade depression which has resulted in a sudden collapse

of demand and prices it has received a set-back and is still suffering from the declining prices.

The jute industry works with a capital of Rs. 22 crores, and is mostly in the hands of Europeans, chiefly Scotsmen both as regards capital and management, but recently Indians have begun to take interest in jute business. The industry makes use of the most up-to-date machinery and in point of organisation, the jute industry is second to none in India.

Woollen Industry

The woollen industry which employs a capital of about Rs. 2½ crores is confined to Bombay, Cawnpore and Dhariwal in the Punjab, the latter two alone accounting for 70 per cent of the investment. The industry is dominated by foreign capital and management. The factories for making finer woollen goods, import wool from Australia and Persia because the indigenous variety is rough and poor and is mainly suitable for the manufacture of blankets, rugs, carpets, and other coarse articles. The main causes why the mills have not rapidly multiplied are the limited demand for woollen goods owing to the hot climate excepting a few months in the year, the scarcity of raw wool of superior quality, and the importation of cheap woollen articles from foreign countries. The excessive imports of woollen goods amounting to six times the home production, show that there is a large field for the development of industry in India. Germany and Italy are serious competitors in woollen products.

Iron and Steel Industry

The iron and steel industry is confined to Bengal and Bihar and Orissa provinces, where iron ore and coal are found in close proximity. This industry is one of the 'key' or 'basic' industries and is of great importance in the modern industrial development of the country. The first successful concern namely, the Barakar Iron Works, which were taken over in 1889 by the Bengal Steel and Iron Company, were started in

1874 in Bengal on the Jherria coal-fields. This company succeeded in manufacturing pig iron and the attempts at steel manufacturing resulted in a heavy loss due to the cheap price of the imported steel. The next important stage in the growth of the industry was ushered in by the formation of the Tata Company. The Tata Steel Company was started at Sakchi (Jamshedpur) in 1908 with a capital of Rs. 2¼ crores which was mainly Indian. Steel was manufactured for the first time in the country by the Tata Company in 1913, which is one of the biggest concerns in India and employs 30,000 workers. The heavy demand for rails, etc., during the Great War not only helped the enormous expansion of the Tata Works, but also led to the formation of several other companies such as The Indian Iron and Steel Corporation of Asia at Manoharpur, the Eastern Iron Company, and the Mysore State Iron Works at Bhadravati. The Tata Company manufactures about two-thirds of the whole output of pig iron and almost the whole of steel made in India. But India is still dependent to a very considerable degree upon foreign iron and steel in spite of the heavy increase in production occasioned by the construction of new iron and steel concerns.

After the termination of war, the steel industry had to face such a fierce competition from the cheap imported steel that the Tata had to apply for protection to the Government. On the recommendation of the Tariff Board, the steel industry was given protection and bounty was also given for a short period on steel rails, fish plates and the railway wagons manufactured in India, but later on bounty was discontinued on the grounds that the industry needs protection for a much longer period of time and bounty involves a heavy expenditure.

Tanning and Leather Industry

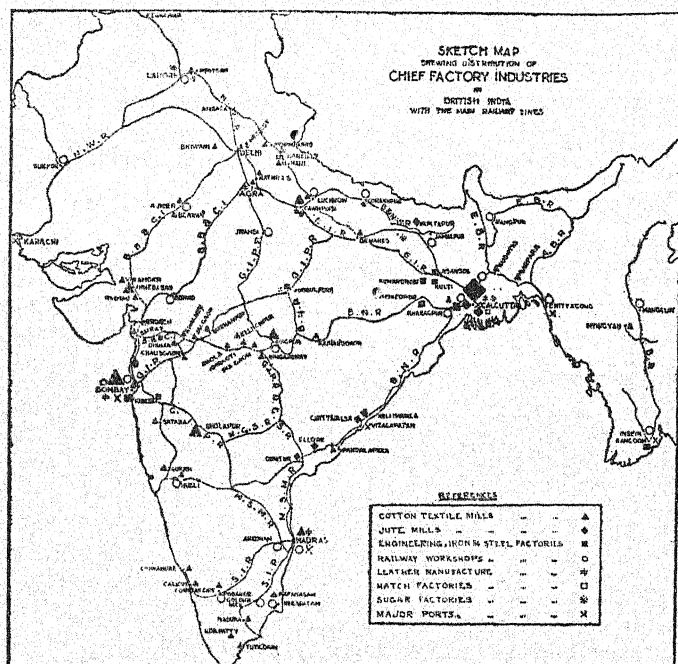
The tanning industry is very old in India. India possesses a vast supply of hides and skins, but previous to the war, these were mostly exported in a raw state to Germany, Austria, and the United States. The first initiative of modernising the in-

dustry was taken up by the military authorities who introduced European methods of tanning to manufacture superior leather for military requirements. A Government Harness and Saddlery Factory was set up at Cawnpore which afterwards became the centre of the tanning industry. During the war, partly owing to the cutting off of the enemy markets and partly owing to the control exercised by the Government, the prices of the hides and skins fell enormously with this important result that many tanneries and leather factories came into existence with up-to-date machinery at Cawnpore, Agra, Madras, Bombay and Calcutta manufacturing leather goods of all sorts. During the war the Indian Munition Board was set up to encourage the tanneries to produce superior type of leather for war purposes. Chrome process of tanning is becoming popular, but owing to the big cost of the machinery required for its equipment, it has made a very slow progress. In spite of the noteworthy progress achieved by the leather industry it still stands in need of proper organisation and expert skill. We even now, export large quantities of hides and skins only to get them back in the form of manufactured goods. Protection against foreign goods and duty on the export of hides and skins in order to discourage the export of the raw material to foreign countries will go a considerable way in making India a self-supporting country as regards leather goods.

Match Industry

The real history of match industry in India dates from 1921, when the duty on imported matches was raised to 12 annas per gross and later on to Rs. 1-8-0 per gross for revenue purposes and which has been now converted into a protective duty on the recommendation of the Tariff Board. Formerly, we used to import annually large quantities of matches chiefly from England, Scandinavia and Japan, the latter contributing the greatest percentage. There were only six factories in India before the war, but after the imposition of the duty they made an extraordinary progress and rapidly multiplied in number. The im-

ports of matches from Japan and Sweden have completely dwindled away into insignificance. The industry is fairly in a prosperous state. There is no dearth of raw material, but owing to the inaccessibility of such timbers as spruce and silver fir, which are most suitable for the match industry, the cost of transportation is very high. In order to avoid this disagreeable position, it has been suggested that splint factories should be started and adequate facilities should be provided for the trans-



portation of the splint to the centrally situated factories in the plains. One alarming feature of the industry is that it is dominated by a foreign syndicate "The Swedish Match Company" which has started a few big industries in India and begun to kill unscrupulously the minor factories of the country. A great hue and cry was raised against the unscrupulous attitude of the Swedish Trust but the Tariff Board regarded the establishment

of Swedish company's factories as of "distinct economic value to the country because of the high standard of quality at company's factories and of the training afforded to Indians in these factories in improved methods of match manufacture."

Paper Industry

Paper-making is an old industry of India, and is still carried on in certain parts of the country by indigenous methods. Early attempts at manufacturing machine-made paper proved abortive. Machine-made paper began in India with the establishment of the Bally Paper Mills on the Hoogly in 1870. The Titagarh Paper Mills were started in 1882. Previous to the war, the industry was in a very unstable condition owing to the severe foreign competition. But with the commencement of the war the Indian Paper Industry has been showing a good progress and it is hoped that with the impending mass spread of education the industry has a great future before it. At the present time the existing paper mills in India are producing only 40,000 tons—about one-fourth of the total consumption which comes to about 1,60,000 tons a year. In India paper is mostly manufactured out of sabai grass, bhabhar grass, bamboos, rags, hemp, waste-paper, gunny bags and old ropes. The Indian paper is of a very poor quality; for manufacturing superior quality of paper the Indian paper mills import wood pulp from abroad. Manufacture of paper from bamboo, the supply of which is practically inexhaustible, promises vast opportunities for the development of the industry. Owing to the severe foreign competition from Scandinavia, and Germany the paper industry applied for protection. In 1925 a protective duty of one anna per pound was levied on imported paper, as proposed by the Tariff Board for seven years so as to secure a firm basis for the industry.

Glass Industry

Glass-making is an old industry in India and certain cities have been famous for glass bangles and other glasswares for

centuries. The indigenous cottage industry which is scattered all over the country, but has its chief centres in Ferozabad in the United Provinces and Belgaum district in the south, is mainly concerned with the manufacture of cheap bangles from 'glass cakes and blocks' made in larger factories. But now the cheap 'silk' bangles, imported from Japan, are a serious rival to the home-made articles. Manufacture of glass in India on modern European lines dates back to 1892, when five glass factories were started, which after an inglorious career died out before long. However, during the war when imports from Germany and Australia were cut off, the Indian factories received a great stimulus for expansion and development. New factories were established for supplying the requirements of glassware, and in spite of the severe competition that ensued after the war the industry has been showing a steady progress towards eliminating the dependence of foreign supplies. Apart from producing bangles worth more than Rs. 100 lakhs a year, the Indian factories are now producing sheet-glass, bottles, phials, chimneys, globes, flasks, etc., and supplying almost half of the demand of the country. From the point of view of equipment and management the industry cannot be said to have achieved that degree of progress and perfection which is approached by other countries, and there is a considerable scope for improvement. A greater degree of efficiency in the organisation of the industry is required to bring down the manufacturing costs and to improve the quality of production for ousting the imports which now annually amount to Rs. 2½ crores. If the necessary protection is granted to the glass industry there is every likelihood of its progress.

In addition to these, there are other industries such as sugar, cement, chemicals, petroleum which, from the industrial and economic points of view, are of considerable importance. Small flour mills are found in Bombay, the Central Provinces, Madras, the Punjab, and the United Provinces. Rice husking mills are mainly situated in Burma, Madras and Bengal. Tea industry is mainly centred in Assam and it is purely financed

and managed by Europeans.

MEANS OF COMMUNICATION AND TRANSPORT

The importance of the means of communication and transport in the intricate and interdependent economic organization of the modern times can scarcely be over-emphasised. Transport is an essential link in the industry and the commerce of the world. Industry, commerce and transport are bound up together for the development of one leads to the development of the other; industrial and transport developments have to go side by side. With a rapid increase in the speed and security of transport, distance is annihilated and geographical disadvantages are neutralised with the important result that more and more distant markets enter into the field of competition leading to an equalisation of prices. Even from the military, administrative and social points of view their importance is no less remarkable. For the growth of civilisation, cheap and quick transport facilities are the essential requirements in modern times. Of course no modern complex civilisation could develop without the efficient system of transport industry which ranks second to none but agricultural industry in the world.

As late as the middle of the nineteenth century India was deficient in its improved facilities for transport and communication. For transport purposes, pack animals such as mules, yaks, horses, camels, bullock carts, palanquins, small river crafts and little sailing and coasting vessels, were ordinarily used. With the advent of the British, a complete revolution has been effected in our transport system, internally as well as externally. Although much has been accomplished in the way of improved system of transport, yet a huge amount of capital to make the present system most efficient and up-to-date is immediately required.

Road Transport

With the growth of political power and expansion of territories, the British administration in India realised the need for

improved means of communication. It was only in 1839 that real attempts were made to connect Delhi and Calcutta by a proper metalled road. However, in Lord Dalhousie's time a vigorous policy was pursued regarding road-making. The extension of the railway system also increasingly necessitated the construction of roads to feed the railways. Under the Reforms of 1919 roads were included in the list of transferred subjects in all the provinces except Assam. In pursuance of sudden and rapid growth of motor traffic the Indian Road Development Committee was appointed in 1927, to examine the desirability of developing the road system of India, the means by which such a development could be most suitably financed, and to consider the formation of a Central Road Board for the purpose of co-ordinating the policy of road development in India.

As a result of the recommendations of the Committee and their acceptance by the Government of India, the duty on motor spirit was increased from four to six annas per gallon and the proceeds of the additional duty of two annas per gallon have been credited to a separate Road Development Account, out of the total receipts realised from the additional duty, 10 per cent of the amount is retained by the Central Government as a reserve for the administration of the fund, for research and experimental works, etc., the remaining, viz., 90 per cent is distributed to the provinces and states in proportion to their petrol consumption. From the reserve grants are also made by the Government of India to the provinces and states on some specified conditions, for example, for projects beyond the resources of the local Governments or those that concern more than one province or state or those that are of all-India importance. The Road Development Account which was set up in the first instance for a period of five years has been extended from 1934 without any restriction of time. But it is now being increasingly realised that the fund available for road development is too inadequate and at this rate the development will be too slow.

Rail-road Competition

With the advent of motor-transport in India, during the last decade, the importance of roads has begun to loom large in the eyes of the public and the Government. The far-reaching potentialities of motor-transport for the commercial exploitation of the rural areas are beginning to be realised. The recent development of motor passenger transport is appreciated as bringing the facility of rapid conveyance within easy reach of ordinary peasants who can be picked up or set down at any point along the route in rural areas. For relatively lighter traffic and for short distances, the motor traffic scores over its competitor—the railway. In rural areas where the population is scanty and scattered, the construction of a railway would be an uneconomic proposition while motor traffic can provide all the facilities with minimum of expenditure. The rural motor bus service opens up country side, provides better facilities to agriculturists for marketing agricultural produce, eliminates all the inconvenience, time and heavy expense involved in a journey between the villages and towns, stimulates the poultry-farming and the cultivation of other lucrative vegetable products, helps to improve the amenities of rural life, and prevents rural depopulation.

In India, owing to the absence of metalled or unmetalled improved roads in rural areas, the motor traffic is mostly concentrated on the metalled roads running parallel to half the total railway mileage, thus proving a serious rival to the railways. As a result of the motor competition railways are losing about 2 per cent of the earnings of a normal year. As yet the motor competition is confined to passenger traffic for short distances only with the exception of the North Western Railway which has suffered in the carriage of merchandise also. We admit that in some cases motor competition has stimulated the railway authorities to make improvements and provide better facilities, but it must be said that this cut-throat competition is not in the best interests of the country and, more so, when we consider

that railways are the property of the Government of India and hence of the tax-payers. The policy should be for the mutual benefit of both to make roads as feeders rather than competitors of the railways.

Construction of good roads in the outlying areas coupled with the systematic organization of motor traffic will go a long way in eliminating the wasteful competition between the railway and the motor traffic. Pioneers also should be encouraged to operate rural transport services by granting some sort of monopoly, subject, of course, to adequate safeguards as to the quality and the sufficiency of the services they provide. It will prevent over-crowding over more lucrative and heavily-trafficked roads, open up subsidiary country routes and will bring many social and economic advantages to the rural parts.

The Present Position

Despite the substantial and praiseworthy improvements in road transport, India still remains a very backward country in respect of road ways. There are four great trunk roads stretching diagonally across the country. Among them the oldest and the most famous is the Grand Trunk Road which runs from Calcutta to Peshawar, others from Calcutta to Madras, Madras to Bombay, and Bombay to Delhi. But none of them is up to the modern standard. Owing to the lack of bridges and crossings, much of the traffic is held up in the rainy season.

Roads have been classified as (a) arterial or main roads, that is, roads which are maintained by Provincial revenues and which traverse from province to province; (b) feeder or subsidiary roads which are maintained by district boards and connect rural areas with the railways or the main roads; (c) the village roads which are *kachcha* or unsurfaced roads maintained by local boards.

The village roads are hopelessly poor in quality; no appreciable attempts have been made to improve their condition. The policy should be now to improve and develop rural communications instead of trunk roads. The development of rural

communication is indispensable as all the advantages of the improved arts of cultivation get neutralised in the absence of better roads. Their importance can be realised when we recall to the mind that it is only through the want of communications that about 5 million acres in Assam await colonization. It is only through special grants to Local Boards for spending on rural communications that substantial results can be achieved. We must not forget the remarks of the Indian Road Development Committee: "... all communications are interdependent. The value of a village road is small unless it leads to a main road, which leads in turn to a market or a railway. On the other hand, the full value of a railway is not realised, unless it is fed by an adequate system of main and subsidiary roads. The orderly development of all communications should proceed together." In any new programme of roads going to be planned in the near future, the all-important question of providing marketing facilities to outlying rural areas should receive the foremost consideration at the hands of the authorities concerned. A good network of road system connecting the urban and rural areas will give a tremendous fillip to agriculture, trade and the industry of the country.

Railways

It was in the time of Lord Dalhousie in 1854 that a definite policy was adopted for the construction of railways in India. In the beginning the Government guaranteed a free grant of land and 5 per cent rate of interest on capital invested by the British capitalists. But the Government suffered a great financial loss, as there was no incentive to economy on the part of the companies. In 1869 the railway construction was undertaken by the direct Government agency but in 1879 due to financial stringency, the government was compelled to have recourse to company agency again but on terms more favourable than under the old guarantee system, and in the new form of guarantee system, the proprietorship rested with the Government and not with the company which constructed the railway.

The Government also reserved the right to purchase the company lines after a certain period at specified rates. In 1900 the railways in India began to show profits and a vigorous policy was pursued in the extension of the railways. As a result of the recommendations of the majority of the Acworth Railway Committee (1920-21) the Government has decided directly to work the lines now managed by the companies on the termination of their contracts.

The total mileage under the railways comes to about 42,000 and the total invested capital amounts to Rs. 850 crores. There are some railways which are both State-owned and State-worked such as N. W. Railway, E. B. Railway, E. I. Railway, and G. I. P. Railway. Some others, although owned by the State, are worked by the companies enjoying a guarantee of interest from the Government, e.g., B. N. Railway, B. B. & C. I. Railway, etc., while there are others which are company-owned and company-managed. The general policy of the railway system in India is conducted by a body known as the Railway Board under the Department of Commerce.

Advantages of Railways

Railways have greatly revolutionized the methods of transport and brought about many political, social and economic changes in the life of the people.

(i) *Political.* Railways have greatly helped to unite together the people of this vast sub-continent having different creeds, castes and traditions into one centralised system of administration. The sense of nationality has been born instead of the disruptive tendencies that prevailed among the different sections of society in the pre-railway period. Any disorder or insurrection within the country or on its frontiers can be easily suppressed by the rapid mobilisation of troops to the affected parts.

(ii) *Social.* The old village isolation and self-sufficiency is breaking down; and in spite of the fact that caste rules are still maintained, the 'compulsory rubbing' of shoulders in front

of the booking offices and within a carriage must bring home the idea of the hollowness of the institution. The social outlook is broadened and people have grown more tolerant and sympathetic towards one another.

Pilgrimages to various Hindu shrines which were formerly expensive, tedious, difficult and even dangerous have now become too cheap and comfortable.

(iii) *Economic.* (a) Cheap, easy and rapid means of transportation have encouraged travelling and considerably helped the movement of population from congested areas to places which are sparsely populated and where labour alone is needed to make the soil yield good harvests.

(b) The improved means of communication have led to the equalisation of prices throughout the country as well as their conformity with the world prices.

(c) The cheap and rapid transport has greatly helped to mitigate the horrors and severity of famines by transporting food grains from the areas of abundance to the famine-stricken areas. Moreover, people can move to other places in search of employment in lean years.

(d) Railways have stimulated the growth of manufacturing industries by facilitating the transport of coal and raw materials and by distributing finished goods.

(e) They are an essential adjunct to internal and external trade. Even the most remote village enjoys the articles produced in the most distant countries.

(f) With the advent of railways, the character of agriculture is also changed. Agriculturists are drifting from the subsistence type of farming to the commercial type of farming, as the latter system of cultivation is more remunerative. Formerly, every village generally used to grow all sorts of crops required by its people, but now villages and tracts tend to specialise in those crops for which they are best suited, and to get other necessary products for their consumption by exchange.

(g) The railway industry is in itself a very big industry and the total number of people employed by the railways in

India amounts to a million.

(b) Government revenues benefit both directly and indirectly; directly because railway profits are an important source of Government revenue, and indirectly because as a result of the development in the means of communication trade develops, industries get stimulated, land values tend to increase—all leading to an increase in the total wealth of the country and consequently in the taxable capacity of the people.

Disadvantages

Railways are, however, not an unmixed blessing to the country.

(a) Railways have killed many indigenous industries by affording better facilities to the import of foreign goods, and increased the ruralisation of the country. The railway rates were so manipulated as to encourage traffic to and from the ports, thereby, encouraging the export of raw materials and the import of foreign manufactures.

(b) If railways have helped the growth of towns, they have also led to the congestion of industries in the port towns and are responsible for much of the insanitary conditions and high rates of mortality.

(c) With equal rapidity they transport the contagious diseases which play a great havoc in the country.

(d) Railway construction has interfered with the natural drainage with this consequence that water-logged areas are found on both sides of the lines, which are the breeding-places of mosquitoes. It must also be said that owing to the lack of bridges or culverts the free flow of water in times of flood is greatly obstructed to the great detriment of the surrounding areas.

(e) It is also said that they have made people more luxurious and ease-loving, and they do not now think it worth while to walk on foot even for short distances. The cheap importation of foreign luxurious articles in the market has made them more fashionable.

But it is worth remembering in this connection that some of the defects mentioned above are not inherent in the railway system and are preventable. No doubt, the newly-constituted railways hastened the extinction of the national industries of India to the utter ruination of the Indian craftsmen by bringing the competition of the cheap machine-made goods to their very door, but the defect lies not so much in the railways as in the railway policy manipulated by the administrators. Again, to speak that the railways have rendered the climate of the country more malarious is not justified because in many instances the natural drainage of the land has been violated through sheer lack of engineering knowledge.

Waterways

Water transport is many times cheaper and possesses many advantages over road and rail transport. Firstly, the huge cost of laying out rails over land, the construction of stations and other necessary equipment and, therefore, the maintenance of a huge array of railway staff is conspicuous by its absence in the case of water transport. No doubt, a small capital outlay is involved in providing terminal facilities such as docks, wharves and warehouses, but it is proportionally much less than the cost of similar provisions incurred in rail transport. Secondly, water transport is more suitable in the carriage of large and bulky goods. In spite of all these advantages, however, water transport has lost its ground in regard to inland trade.

It is amply proved by the historical records that India played a considerable part in the sea-borne trade in ancient times and carried foreign trade in sailing-vessels with many countries of the East and West. A brisk coastal trade was also maintained between the sea-port towns. Inland waterways were also used as highways for merchandise and passenger traffic. Until the advent of the British and long afterwards, India had a flourishing ship-building industry.

But the advent of steamships and the opening of roads and railways in India sounded, so to speak, the death-knell of the

Indian Shipping Industry and threw out of use almost all the inland waterways of the country. In Northern India, we have many navigable rivers. It is estimated that there are about 26,000 miles of navigable waterways in the great river systems of Northern India. The Indus, the Ganges, the Brahmaputra, and the Irrawaddy and their tributaries are the chief means of inland water transport. Steamers can navigate in these rivers for the greater part of the year for hundreds of miles above their mouths. But the development of railways and their keen competition has greatly reduced the volume of traffic, both passenger and merchandise, through waterways. Inland steam navigation is now confined mainly to the Brahmaputra, the lower reaches of the Ganges, and the Irrawaddy including some of their territories. In the Peninsula, the rivers are, however, not fit for navigation purposes owing to their rocky beds and torrential flow during the rainy season. With regard to the foreign sea-borne trade, it is entirely in the hands of the foreign shipping companies. The coasting trade between seaport towns is carried on mainly by a few large British navigation companies. It has been estimated that the share of Indians in the coastal trade amounts to 13 per cent, the rest being appropriated by the foreign companies. The important seaports of India are Karachi, Bombay, Goa, Madras, Vizagapatam, Calcutta, Chittagong, and Rangoon.

IRRIGATION

A Paramount Necessity

In order to avert the unforeseen consequences of drought, the question of providing suitable irrigation facilities to the agriculturists assumes an attitude of utmost importance. In the first instance, the Indian rainfall is very unevenly distributed over the country, e.g., the normal rainfall is 460 inches at Cherrapunji in Assam and less than three inches in Upper Sind, where cultivation without irrigation is impossible. Secondly, where the rainfall is not so very scanty, it is uncertain and ill-

distributed as in the uplands of the Deccan which are exposed to chronic drought. Thirdly, some valuable crops such as cotton, and sugarcane cannot be successfully grown without a constant supply of artificial water. Fourthly, owing to the seasonal character of the rainfall, double-cropping requires artificial irrigation in the absence of winter rains. Lastly, in view of the overwhelming preponderance of the agricultural population, the freakish nature of our Monsoons and the dry and porous nature of the Indian soil, it is a question of vital importance to see that regular supply of water is maintained in order to save agricultural industries depending upon it from ruin. Irrigation has been practised in India from time immemorial, specially in the forms of wells and tanks to make agriculture independent of deficient rainfall, and the British contribution to the irrigation system consists in the large irrigation works constructed for the purpose of utilising the surplus water of the big rivers.

Classification of Irrigation Works

Irrigation works of all kinds may conveniently be divided into three great types, viz., lift, storage and river works and are represented respectively by wells, tanks or reservoirs and canals.

(i) *Well-irrigation or Lift Works.* Wells occupy a very important place in our irrigation system and irrigate about 25 per cent of the total irrigated area in India. Wells are a private enterprise but the Government has systematically encouraged well-irrigation by advancing Taccavi loans. Different varieties of wells are to be seen in India. They may be just holes in the ground, sunk to sub-soil level, used for a year or two and then allowed to fall into decay, or they may be lined with timber or with brick or stone. Well-irrigation is mostly found in the Punjab and the United Provinces. The method of lifting water varies in different parts of the country. The following are the more popular means of raising water from a lower level to that which will command the area to be irrigated.

(a) The *Dbekli* system is a crude contrivance for raising

water, it consists of a long pole working on a post and weighted commonly with compact mass of mud at one end, and a bucket attached by a long rope to the other one. The water is raised in small quantities and the process is very weary and monotonous. Vegetable growers especially in suburban areas adopt this method with great convenience and economy.

(b) The *Boki* system, in which two men stand on opposite sides of the water pit holding the strings attached to a flattened out leather basket, and throw water from a low level to a high one.

(c) The *Charsa* system—Charsa, which goes by different names, is a big leather bag which can contain about 30 to 40 gallons of water—in which cattle energy is utilised to draw water and one man stands at the mouth of the well to empty the leather bag and the other of course guides the bullocks. This system prevails mostly in the United Provinces and the Punjab; well-constructed and goodly-sunken wells are the chief requirements of this system.

(d) *The Persian Wheel* is used most profitably and economically in those parts where the level of the sub-soil water is fairly high and the underground water is abundant. It requires less of labour and more of capital than the former system.

(e) The utility of wells has been considerably increased by the sub-artesian bores and the installation of small electric power pumps. A new vista is likely to open in our irrigation system with the introduction and cheap distribution of hydro-electric power in rural areas. Recently the U. P. Government has undertaken the work of installing small power pumps in most of the districts of these provinces.

(ii) *Tanks and Storage Works.* Next to the wells the indigenous instrument of irrigation is the tank. Village tanks or large artificial lakes are called storage works, formed by the construction of dams across drainage lines, for storing the supply of rain water for subsequent uses. These tanks vary in size from a great work like Lake Fife and Whiling in the Bombay Presidency or the Periyar Lake in Travancore State

holding up colossal quantities of water and spreading their waters through great chains of canals, to the little village tank irrigating scarcely ten acres. Tank-irrigation is mainly found in the Deccan. Madras alone possessing about 40,000 tanks irrigating about three million acres of land. Tanks are not found in Sind, the Punjab and the United Provinces. The Native States of Rajputana, Central India, Hyderabad and Mysore have undertaken the construction of huge lakes for irrigation purposes. The famous State of Udaipur has the most magnificent Lake (Jaisamand), one of the biggest artificial lakes in the world, which has an area of 45 square miles. In Mysore, the "Krishna-Rajasagar Reservoir" called after the name of the present Maharaja has been constructed. In Hyderabad, the Osman-Sagar, one of the biggest storage works, has been recently constructed. The total area irrigated by storage works is about 8 million acres, but in many cases the supply is extremely precarious. The chief defect of minor storage works is that they generally run dry when they are most wanted—that is, during a drought.

(iii) *Canals*. Canals are by far the most important methods of scientific irrigation and are mainly the product of the British rule although our Hindu and Muslim sovereigns are also known to have undertaken the construction of some canals. Owing to the constant recurrence of famines in one part or the other due to droughts and the consequent misery of starvation of the agriculturists, the Government launched a very enthusiastic policy of canalising the tracts exposed to precarious rain-falls.

Canals may be divided into two classes, viz., Inundation and Perennial. The inundation canals are constructed by cutting shallow channels in the river banks; irrigation of the fields by this system can only take place when the river is in its flood, as with the rise in the water level of the river, the water will flow into these channels. These canals are to be found mostly in Sindh and in some tracts of the Punjab but they afford a precarious supply of water. Perennial canals are, how-

ever, constructed to obtain an assured supply of water by building a strong dam or anicut across an even-flowing river, and diverting its water by means of a canal to the area to be irrigated. Within this class fall the great perennial systems of the Punjab and the United Provinces.

From the financial point of view the irrigation works (constructed by the State) may be classified into two classes, viz., Productive and Protective (or unproductive) works. Productive works are those, the capital cost of which has been wholly or mainly provided out of loan funds or by appropriation from the Famine Insurance Grant, and which are expected to yield within ten years of their completion sufficient revenue to pay their working expenses and the interest on the capital expended on their construction. Most of the largest irrigation systems in India belong to the productive class. But from 1900 onwards, as a result of the recommendation of the Famine Commission of 1901, the Government began to construct protective works, not directly remunerative, but which would ensure protection against famine for the areas like Rajputana where rainfall is precarious. Protective works are those which are designed as a protection against famine and the cost of which is provided out of the current revenues of the Government or from the annual grants set aside for famine relief and insurance. Even these protective works may after some time become productive, if large areas of land come under cultivation.

There has, during the last 50 years, been a steady growth in the area irrigated by the Government irrigation works. From $10\frac{1}{2}$ million acres in 1878-79 it has risen to, excluding Indian States, $31\frac{1}{2}$ million acres. It is expected that with the proper working of all the irrigation projects which are now under construction, the total irrigated area in British India will amount to 40 million acres.

Since the introduction of the Montagu-Chelmsford Reforms in 1919, irrigation has come under the control of the Provincial Governments and from 1921 onwards a remarkable activity has been displayed in the construction of irrigation works, some of

which have been completed while others are yet under construction. Some of the more important recent projects which are calculated to confer real benefits upon the agricultural industry of India may be mentioned here.

(a) *The Sukkur Barrage and Canals Scheme.* A stupendous barrage, measuring about a mile in length with 66 spans provided with steel gates, has been constructed across the Indus a little below Sukkur. It is one of the marvellous feats of engineering skill and is considered to be the greatest work of its kind in the world. Out of this huge reservoir seven main canals (three on the right and four on the left-hand side of the barrage) have been taken out to distribute the water of the river over an area of 8 million acres, a tract which is at present partly a desert, but in course of time will be one of the richest granaries of the world. The whole scheme will cost about Rs. 20 crores and the total length of the main canals, branches, distributaries and minor canals will reach over 6,400 miles. All the canals of the Sukkur Barrage System will irrigate nearly $5\frac{1}{2}$ million acres of land every year and of this about $2\frac{1}{2}$ million acres will come under cultivation for the first time. On the completion, this gigantic irrigation project will provide a perennial water supply for 8,23,000 acres of rice, 17,39,000 acres of cotton and jowar etc., and 33,38,000 acres of wheat and oilseeds. The Scheme will bring about a vast change in the agricultural industry of the province, which hitherto was dependent upon the precarious rainfall.

(b) *The Sutlej Valley Works.* This is another great irrigation project which is nearing its completion. Before the canalisation of the Sutlej on each bank of the river both in the Punjab and in the Indian States of Bhawalpur and Bikaner in the south, there existed a long series of inundation canals which could get the water from it in flood times. There was no proper method of controlling the water supply, with the consequence that in times of deficient rainfall, many tracts felt the pinch from want of water and their crops withered away before the time of maturity to the great detriment of the peasantry. To

avoid this uncertainty of water supply the Sutlej Valley Project was undertaken.

The Project consists of four weirs, three on the Sutlej and one on the Punjab, as the Chenab is called below its junction with the Sutlej. The total area to be irrigated is 51,08,000 acres or nearly 8,000 square miles, of this 20,75,000 acres are perennial, 30,33,000 non-perennial irrigation; 19,42,000 acres are in British territory, 28,25,000 acres in Bhawalpur and 341,000 acres in Bikaner. The total cost amounts to about Rs. 24 crores, a portion of which has also been contributed by the States of Bhawalpur and Bikaner. The importance of this project in the economic position of those territories will be immense. It is calculated that on the introduction of irrigation, no less than $3\frac{3}{4}$ million acres of desert waste will become available for colonisation and sale, and be brought under cultivation for the first time.

The entire Punjab plain possesses a magnificent system of canals and water channels. The Western Jumna Canal irrigates the south-east of the plain; the Sirhind Canal also waters the south-eastern plain. The Upper Bari Doab Canal, the Lower Chenab Canal, the Lower Jhelum Canal, and the famous Triple Project or the Upper Chenab-Lower Bari Doab Canal System are other noteworthy works which have helped in increasing the productivity and prosperity of the Punjab.

(c) *The Sarda-Oudh Canals.* To irrigate the north-western districts of Oudh and some tracts of Rohilkhand, the Sarda was canalised and the scheme was put into regular service in 1929. The project, as a whole, contains 650 miles of main lines and 3600 miles of branches and distributaries which will irrigate about 1.7 million acres.

(d) *The Cauvery Reservoir Project.* On the Cauvery at Mettur, a large dam is being constructed, which will impound over 90,000 cubic feet of water. On the completion, the project through a canal of 88 miles long will irrigate a new area of 301,000 acres and will improve the water supply for an area of a million acres. The scheme will cost Rs. $6\frac{1}{2}$ crores.

(e) In the Bombay Presidency the Bhandadara Dam, 270 feet in height, and the Bhatgar (Llyod) Dam have been respectively completed in 1925 and 1926, which are designed to supply water to the canals irrigating the valleys below these lakes. As a result of these schemes waste lands have been converted into areas producing luxuriant crops.

(f) In Bengal, the Damodar Canal had begun in 1926-27 and will, when completed, irrigate 200,000 acres of rice land, in the Burdwan and Hoogly districts. The Barksvar Canal in Birbhum is also under construction and will, when completed, be able to irrigate 10,000 acres of land in a tract subject to occasional droughts.

Area irrigated by canals and the value of crops raised

Provinces	Net area cropped	Area irrigated by Canals*	Cost of construction of Government Canal	Estimated value of crops raised with the help of Government Canal
	In lakhs of acres	In lakhs of acres	In lakhs of rupees	In lakhs of rupees
Madras	389	74	2001	3113
Bombay	258	3	1063	180
Sind	49	47	2913	697
Bengal	285	.4	529	22
U. P.	353	3.7	2590	1212
Punjab	344	113	3430	3068
Burma	182	21	671	482
Bihar and Orissa ...	291	8	628	331
Central Provinces	210	3.5	683	88
Rajputana	4	.29	36	6
Baluchistan	4	.2	36	4
N.-W. P.	26	3	297	113
	2395	310.39	14877	9316

* Excluding Indian State Canals

Irrigational Works Conditioned by Natural Factors

We have seen that in India for the successful cultivation of crops, means of irrigation are indispensable. Now, we have to see how far the natural causes in India determine the system of irrigation. Certainly, the geographical factors play a very dominant part in determining the suitability of the irrigation system for a particular tract. We have already referred that canals are mainly found in the Punjab and in the north-western districts of the United Provinces, wells in the remaining part of the northern plains and in Central India, and tanks in the Plateau of the Deccan.

The Indo-Gangetic Plains are specially favourable for canal irrigation. Owing to the flat surface and soft alluvial bed of the Indo-Gangetic Basin, the numerous snow-fed rivers which command a perennial supply of water, and heavy density of population in rural areas, canal construction has been found most convenient and distribution of water most economical. In densely populated tracts there is a less likelihood of running water to waste because of the even distribution of water.

Well system is suited to those areas where the level of the sub-soil water is fairly high, the sub-soil water abundant and the soil is not rocky. In places, where the sub-soil water level is deep, it is not an economic proposition to irrigate agricultural crops, viz., in the sandy deserts of Rajputana where the depth is sometimes as great as 350 feet, it is too costly to lift water. Rocky beds also prevent digging of wells. In the Deccan Tableland, the rocky nature of the soil and the existence of the sub-soil water at great depths prevent an ordinary cultivator to sink a well for irrigation purposes. Many thousands of acres lie in a state of wilderness because of the want of proper system of irrigation. In the United Provinces, the Eastern Punjab, Bihar and Orissa and Western Bengal, well irrigation is more economical and efficient because of the soft bed and moderate rainfall.

There are many reasons why tank-irrigation is so prominent in the Deccan. The first explanation lies in the peculiar

configuration of the soil. The undulating character of the region, together with a rocky bed makes the canal construction prohibitive. Moreover, the rivers are not snow-fed and they are solely dependent upon the rain-water; there are many streams which become torrential during the rainy season but dry up when rains cease. On the contrary, the existence of deep valleys between two hills makes it convenient and economical to put a weir across them and impound rain-water in reservoirs for distributing a regular supply of water through channels to the arable fields. Lastly, the scattered population of the tract also favours the system of tank-irrigation. Generally speaking, a village possesses a small village tank which irrigates the fields of the cultivators. If a canal travels for long distances without being utilised in the midway, the wastage through percolation of water will be immense. So this is the only possible and efficacious method by which the abundant rain-water can be conserved that would otherwise flow out uselessly into the ever-yawning oceans. * Tank irrigation has reached its highest perfection in Madras.

Advantages of Irrigation

In spite of the huge capital expenditure incurred in the construction of irrigational projects, the advantages derived from them are overwhelmingly great.

(i) The obvious merit of irrigation lies in the fact that it affords an effective protection against famines and scarcity, even in those regions where rainfall is generally plentiful and certain.

(ii) Owing to the certainty and regularity of canal water, canals have facilitated the extension of cultivation in tracts subject to scanty or precarious rainfall and have increased the productiveness of the irrigated crops. Many thousand acres of treeless wastes specially in the Punjab, in the districts of Lyallpur, Shahpur and Montgomery have been converted into smiling lands abounding in rich harvests.

(iii) The cultivation of two and sometimes even three

crops in a year is made possible due to an assured supply of water. Even in the sweltering heat of the summer season, when land is parched and hard baked and every blade of grass is scorched, cultivation of sugarcane, cotton, etc., can be carried on successfully without being dependent upon the rain-water.

(iv) As a result of the establishment of a large number of canal colonies, the pressure of population in congested areas has been greatly relieved.

(v) With the more equitable distribution of agricultural population, consequent upon the availability of irrigation facilities, there has been a marked increase in the agricultural wealth of the country.

(vi) Another great advantage which follows in the wake of canal irrigation is that it brings the sub-soil water level up, where construction and operation of wells for irrigation purposes becomes easy and economical.

(vii) Railway profits, specially in the Punjab, have greatly increased, because of the increased productivity and commercial nature of the farming.

(viii) There has been an increase in the revenues of the Government not only directly, from the sale of waste lands, land revenue and water-rates, but also indirectly from the growing prosperity of trade and commerce.

(ix) The introduction of scientific methods of cultivation is made possible—leading to an increased productivity of the land. In short, irrigation has brought in its wake greater wealth and happiness where poverty and chronic misery prevailed at one time.

Defects of Canal Irrigation

Canal irrigation is not free from its defects, it has produced many serious evils, the solution of which requires an intelligent study.

(i) The enormous waste of water in canal-irrigated tracts often leads to water-logging which results in the death of plants due to the want of air or destruction of nitrates. Having too

much water in the soil means the exclusion of air which is necessary for plant growth and for the activities of the soil organisms. Wet lands owing to excessive presence of moisture generally tend to become weedy lands, which yield commonly inferior type of crops both qualitatively and quantitatively. Soils have thus deteriorated in the Punjab where thousands of acres have been thrown out of cultivation by the rise of sub-soil water.

(ii) Excess of water, when applied to the fields without due regard to the needs of the crop, has more oftener than not resulted in the accumulation of many injurious salts as an efflorescence (reh) on the surface making the soil hopelessly sterile beyond any hope of recuperation.

(iii) Lack of proper drainage together with the excessive moisture produced by water-logging has made the climate malarious, which is so frightfully injurious to the health of the people.

(iv) Too much dependence of the ignorant cultivators on the subordinate canal staff for the supply of water is also considered by some as a great weakness of the system.

A Greater Need

Although a considerable progress in providing irrigation facilities to the dry tracts of India has been achieved, yet much remains to be accomplished. The fear of drought in the country, where the prosperity of trade, commerce and industry is intimately bound up with the agricultural prosperity, is to be avoided and any efforts to place agriculture on a more stable basis by providing a regular supply of water, would go a long way to the solution of the problem of poverty in India. It is estimated that irrigation facilities including all sources of artificial irrigation, whether undertaken by the Government or by private enterprise, are available only to sixteen per cent of the total area cultivated. Thus, there is absolutely no provision of irrigation facilities for the remaining 84 per cent of arable lands. The risky nature of the agricultural industry in India has reached

to such a serious state that it has made the agricultural population quite inert and fatalistic—a feeling deterrent to sound economic progress. When the arid tracts of the Punjab can be converted into smiling fields through a network of canals, there is no reason why further improvements of water facilities to the remaining tracts exposed to the rigours of occasional droughts will not bring the same salutary effects upon the agricultural industry. To speak that the freakish nature of the Monsoons is responsible for the poverty of the Indian cultivators seems wholly fallacious. Rather it is the failure on the part of the people and the Government to guard themselves against this natural deficiency that is responsible for the adverse state of affairs.

The attention of the Government and the well-wishers of the peasantry is now directed towards the improvement of village conditions. But it should be taken note of that all other schemes regarding the improvement of villages should not come unless the essential condition of providing water facilities is fulfilled. Statistics of crops taken in different provinces have shown that the average output of a crop with irrigation facilities is generally 50 per cent higher than that of unirrigated areas. Thus, the annual yield of crops can be increased to 50 per cent, if all the precarious tracts are provided with adequate artificial water facilities. At places, where canal water cannot reach or is not economically possible, the Government should come to the assistance of the agriculturists in the construction of wells by the provision of technical advice, grant of Taccavi loans, etc. Construction of tube-wells worked by cheap electrical energy can be very successfully undertaken by the State. Some rudimentary form of co-operation still exists in the villages for the construction and working of wells, and it would really be a great thing, if agriculturists were to organise themselves on co-operative principles in sinking and working tube-wells which are sure to serve as an effective remedy against any failure of rains.

CHAPTER XIII

ORGANISATION

The Organiser: His Importance and Necessity

We have had already an opportunity in the foregoing pages of stating organisation as the fourth agent of production: let us now speak something of its importance and necessity in the modern industrial organisation. The function of an organiser is to bring about a proper co-ordination of the various services of land owners, labourers and capitalists to get the best results with the minimum of expense and trouble and to remunerate them most satisfactorily. Even in the simplest form of production some degree of organising ability is needed. For instance, an agriculturist who is his own landlord, labourer and capitalist must decide as to what crops should be grown on particular fields, and how many ploughings and waterings should be supplied to a particular crop. He must also select the kind and amount of seed to be sown and the type of manure to be applied in raising specially rich crops. He also exercises his organising ability in reclaiming poor lands or in improving their productivity, so as to yield more good results both in quality and quantity. Thus, even in elementary conditions, some degree of organisation or superintendence is necessary but the necessity for organization becomes much more insistent when the various factors, land, labour and capital are owned by different persons, or are situated in different places. "An agency is required which will bring them together and co-ordinate their functions, supply the various factors in the right proportion and at the right time, and see that each factor is remunerated for its contribution to production." Success or otherwise of a business in the modern highly organised industrial system depends upon

the degree of organization and the entrepreneur is the pivot around whom hinges the movement of other factors of production. The strength of the different factors lies in their effective co-operation under one organisation. The issue of large scale modern industry, in the absence of any organization, can better be imagined than described; everything will go criss-cross, characterised by many awkward abnormalities and numerous fatal accidents, the output will be hopelessly diminished and in the absence of any initiative to improvements an utter stagnation will be brought about, and in no time the whole structure will come down crumbling to the ground, entailing incalculable hardships and immense losses to the labourers and capitalists alike.

The admirable note from F. A. Walker's *Political Economy* regarding the indispensable position of the entrepreneur in a modern industry will repay our study well. He writes that *mastership* or the entrepreneur system is essential to a large and varied production. The industrial enterprises of the civilised states could not have been brought to their present height without mastership, and could not be maintained at that height without it. In its first stage, the division of labour does not necessarily imply the introduction of the master class. When the forms of production are few, when materials are simple, when only hand tools are used, when each artisan working at his bench makes the whole of the article to be marketed, when styles are standard, and the consumers of the product are found in the immediate neighbourhood, the need of the master is not felt. But when the handloom gives way to the powerloom, when the giant factory absorbs a thousand petty shops, when many persons of all degrees of skill and strength contribute to a result which perhaps not one of them comprehends perfectly, when machinery is introduced which crushes stone and iron with the force of lightning, when costly materials require to be brought from the four quarters of the world through every land, when the fashion enters, demanding incessant changes in form or substance to meet the caprices of the market, the master

becomes a necessity of the situation.

DIVISION OF LABOUR

In the modern system of industrial organisation, *Division of Labour* means the separation of the different tasks in the production of any commodity in such a manner that each worker instead of doing the various kinds of labour for the satisfaction of his own wants devotes himself exclusively to one particular task and usually to that kind of job for which he is most fitted. In the primitive societies, we find little or no division of labour; each man without the aid of others provides himself with all the necessities of life. In the various stages of productive effort—from the primitive stage of direct appropriation when man lived by hunting, fishing and procuring fruits, etc., provided freely by nature, to the pastoral, agricultural, handicraft and industrial stages, we find “division of labour” assuming more and more specialised forms until in the modern times of mammoth factories the work is split into several fractional tasks, each undertaken by a worker or a group of workers.

Division of Labour may be *simple* or *complex*. Under *simple division of labour*, a man carries through the entire process of production himself, e.g., a shoe-maker does not only make the shoe, but he also tans the leather and carries all other allied processes independently of anyone else. Under *complex division of labour*, the entire process of making a complete thing is split into minute sections, each of the productive process being given to each labourer, or to each group of labourers, e.g., to continue the above illustration, instead of one cobbler working intermittently at all the various stages in the making of a shoe, in a modern shoe factory, the entire process is divided into various processes, each of them being assigned to a different worker. To the latter is given by the economists the technical name “division of labour.” But while the workmen to attain specialisation divide the processes among themselves, they com-

bine their efforts in producing the finished article, and hence division of labour has often been described as *combination* or *co-operation of labour*.

Various Forms of Division of Labour

Penson has distinguished between four forms of division of labour which may be enumerated as follows:

1. *The division into trades and professions.* This form of division of labour arose at a very early stage of human society, when people adopted different professions perhaps according to their inclinations and capabilities, and began to specialise in their callings. The assignment of separate duties to men and women, or of special functions to the king, to the warriors, to the priest, to the businessman thus giving rise to certain social classes, are examples from primitive society. The caste system in India is an instance of this form of division of labour which assigned special functions to four distinct castes.

2. *The division into complete processes.* Under this system, the produce of one set of producers can be sold to another and utilised by them; the finished product of the one set provides the material on which the other works. Thus instead of cloth being made by one person from the raw material, the cotton spinning, weaving and dyeing are done by separate workers each attaining a specialisation in his own branch of work.

3. *The division into incomplete processes.* With the introduction of factory system still minuter sub-division of labour has been made possible. Under this form, the industrial workers have different parts of the process assigned to them. The work of each is merely a contribution to the final product, from which it cannot be separated and can have no separate existence or value. Work becomes more automatic and specialised. For example, in a modern shoe factory one man cuts out the leather, another cleanses it; one cuts the sole, another makes the heel; one nails the sole on, another stitches together; one shapes the upper, another polishes the shoe. Thus the whole productive

process is split into unimaginable minute parts and each contributes his special product to be used by his co-workers.

4. *The division into districts suited to particular industries.* It is also called the 'geographical' or 'territorial' division of labour. As a result of the combination of various physical, climatic, social or political causes industries become localised in particular centres. Rapid and cheap means of transport and communication are greatly conducive to this territorial specialisation of labour.

Its Advantages

(i) *Increase of skill.* The skill or dexterity of the worker is immeasurably increased by repeatedly doing the same process day after day and year in and year out. Practice makes perfect; one who is a jack of all trades is master of none.

(ii) *Saving of time.* The gain in time is twofold; the worker has not to pass so frequently from one operation to another. Secondly, he can learn his special process in less time, thus shortening the period of apprenticeship, for as the task becomes sub-divided its difficulty is lessened.

(iii) *Economy of labour power.* Workers can be classified easily and assigned to tasks according to their capacities. This adaptation of task to the faculties of individual workers under a highly intricate system of division of labour leads to greater economy of labour and increased production. Light work can easily be performed by women and children while man can devote his energies in those operations which require greater strength, intelligence and resourcefulness.

(iv) *Breaking down barriers between different trades.* As a result of the similarity of the work in different industries brought about by complex division of labour, it has been made possible for the labourers without any further training to move from one trade to another, when other trades offer better remunerations, or when there is depression or unemployment in one or the other trade. Hence, division of labour has greatly facilitated the mobility of labour.

(v) *Economy of capital.* As a labourer works constantly at one process of the work, the machine can be utilised to its fullest extent. If a labourer tends many operations, it is but natural that while engaged in one process, the other tools, in the intervening period will remain idle.

(vi) *Diminution of physical strain.* Strain is lessened by the use of machinery for burdensome and heavy tasks; monotony of work is also diminished, as the more monotonous works are usually taken up by machinery.

(vii) *Increased use of machinery.* There is a very close connection between the extension of division of labour and the extended use of machinery. Division of labour or specialisation of functions by dividing the work of production into a number of simple and almost routine operations, facilitates the introduction of machinery which in turn widens the scope for division of labour.

(viii) *Promotion of inventions.* When a labourer works at the same process throughout his life, he has better opportunities to observe defects in specialised capital and suggest important inventions. Many discoveries which have ultimately relieved them of much manual effort and strain have come from the brains of workmen.

(ix) *Benefit of association.* The modern factory life made possible by division of labour and the increased use of machinery has, by the virtue of closer contact and association of labourers, a great humanising, civilising and a sort of progressive influence.

(x) *Increase of output.* The enormous increase in output, attendant upon factory production, has benefited every individual in the form of low prices to be paid for commodities and has considerably raised the standard of living of the people.

Its Disadvantages

(i) *Decrease of skill.* The excessive specialisation of a single operation reduces the worker to the level of a mere machine-tender. He becomes less efficient, as instead of giving a complete finish to the article he only makes one small part

of it.

(ii) *Loss of interest.* A worker, when he works at some small process, will not take the same interest, as when he produces the entire thing with his own hands. His mind tends to become narrow owing to the restricted character of his work and he no longer feels the sense of pride of having produced a thing which is a strong incentive to the accomplishment of the highest kind of work.

(iii) *Monotony and dullness.* The monotonous work amidst the chug-chug of the engine and the rattling sounds carried on with break-neck hurry has a cramping effect on the mental faculties of a worker which is apt to stifle his initiative.

(iv) *Congestion in cities.* Division of labour is attended with factory system which is so often associated with "crowded towns and cities, life under unhealthy conditions, absence of personal contact between employers and employed, etc."

(v) *Displacement of adult male labour by child and female labour.* As the processes become simpler, there is a tendency on the part of employers to employ cheap child and female labour. Not infrequently, adult male labour is made redundant or exposed to the competition of child labour by the introduction of new machines.

(vi) *Extreme dependence of labour.* It brings about an extreme dependence of man on other members of the group which is often, at least partly, an evil. 'A strike by a particular group of men—mining, for instance—may throw out of employment not only the remaining men in that business, but also thousands or tens of thousands of others whose own work depends upon the product of the industry in which the strike occurs.

The defects enumerated above are not inherent in the system; most of them are temporary and remediable. A sound system of education to counteract the deleterious tendencies of narrow-mindedness, healthy surroundings, hygienic factories, shorter hours of work, increased leisure, humanitarian legisla-

tion, and welfare schemes involving the provision of rest rooms, reading-rooms, dining rooms and playing fields will go a long way in mitigating the evils of the system. Its advantages far outweigh the disadvantages and this is the reason why division of labour is assuming a growing importance in every sphere of human activity.

Extent of Division of Labour

The extent of the division of labour in any kind of industry depends upon the following conditions.

(i) *The extent of the market.* Division of labour involves production on a considerable scale, and this again depends on the extent of the market. Specialisation of functions can be carried on successfully only, when there is a large demand to keep the large number of labourers fully employed. Division of labour is directly proportionate to the size of the market.

(ii) *Nature of industry.* Division of labour depends not only upon a large scale production for a large market, it also depends upon continuous production. If the work is periodic, there are less chances of specialisation in it, for the worker will have to shift to some other occupation when he is out of work. Division of labour is not applicable to agriculture owing to the seasonal character of the work, whilst in manufactures, e.g., spinning and weaving, one can work continuously at the same process without being disturbed by any ordinary freaks of nature which counts so much in agriculture.

(iii) *Nature of demand.* Division of labour can be advantageously practised, if the demand is steady and not marked by constant oscillations. Constant changes in demand hamper large scale production and prevent the full utilisation of division of labour.

LOCALISATION OF INDUSTRIES

The concentration of a particular industry in a particular region is known as the localisation or territorial division of

labour. The reasons which determine the birth of industries in certain particular localities are numerous and diverse, but the localisation of great industries of today is generally attributable to one or two marked influences, such as nearness to raw materials or to sources of powers. The chief industries localised in India are cotton spinning and weaving in the Bombay Presidency, jute manufactures on the Hoogly, coal, iron and steel industries in Bengal and Bihar and Orissa, tea in Assam, coffee in the Madras Presidency, leather at Cawnpore and Madras, the sandalwood industry in Mysore, sugar factories in the United Provinces and North Bihar, furniture, resin, turpentine in Bareilly, silk-weaving at Benares, carpet-weaving at Mirzapur, and marble works at Agra.

Causes of the Localisation of Industries

(1) *Nearness of raw materials.* The extractive industries such as mining, quarrying, lumbering and fishing are necessarily localised in the neighbourhood of their supplies, e.g., iron and steel works in Bengal, Bihar and Orissa, gold-mining in Mysore, wood-works in Bareilly and paper mills in Titagarh near Calcutta.

(2) *Nearness to power.* Industries get localised near places which can command the cheap supply of power. Formerly, before the discovery of steam when running water was used as power, mills and factories were set up on the banks of rivers. Later on, when steam began to be utilised industries tended to concentrate near coal repositories. Again, with the introduction of hydro-electric power a gradual retreat is discernible.

(3) *Physical and climatic conditions.* They also play a very important role in the localisation of industries. Besides, sources of power, the climatic environments, advantageous situation relative to ports and natural facilities for transport are regarded as of very great importance to certain industries. Lancashire's damp climate is extraordinarily suited to cotton spinning and weaving, enabling finer yarns to be spun than in other localities.

(4) *Accessibility to markets.* The presence of a large demand is in itself a great attraction to the development of industries. In former days, the industries tended to flock around the royal court or the seat of fashion. The localisation of artistic trades in Agra, Benares, Dacca, Kanauj, Lucknow and Murshidabad can be attributed to the patronage of the court and of the wealthy population. Moreover, industries are attracted to the neighbourhood of large towns because there is a large demand for their products.

(5) *Momentum of an early start.* Sometimes industries tend to grow in a particular locality without any special reason, but merely because some pioneer started his industry there. And once an industry is established it tends to persist there, as it comes to acquire many advantageous points with the passage of time.

Advantages

(i) As a result of the localisation, the commodities manufactured in that particular locality acquire a reputation which secures for them a good market and a good price. Dacca muslin, Kashmere shawls and brass wares of Moradabad are good instances.

(ii) It also brings about a great increase in the efficiency of labour, capital and land. A localised industry creates a kind of hereditary skill, as the children of the workers engaged in that industry learn many intricacies of the trade unconsciously from their childhood. The place also becomes a good market for that kind of labour which is employed by the industry, because the labourers when they start in search of employment come to that place without any waste of time. Moreover, it ensures a steady flow of labourers to the great relief of the employers.

(iii) Localisation brings about an all-round progress. Banking organisations come into being and industries can secure a sufficient amount of capital to finance their trade. Many big concerns come to stock the spare parts and accessories needed

by the localised industry and to undertake the repairs of the machinery.

(iv) The promotion and growth of subsidiary industries is another advantage, resulting from the localisation of industries, e.g., the development of Tata Iron and Steel Works at Jamshedpur has also led to the establishment of subsidiary industries such as the Indian Tin-plate Company, etc. Similarly, when good many industries work together, their waste products are utilised in the production of some other article, e.g., paper mills in Bombay use the sweepings of the cotton mills as their raw material.

(v) Sometimes supplementary industries are also started to provide employment for women and children, e.g., cotton mills near iron mills.

(vi) Lastly, owing to the specialisation of skill in that particular locality, the constant strivings of the industrialists to score over their competitors and a good deal of intercourse between the wiser heads, there are greater possibilities of inventions, and improvements in that trade and industry.

Disadvantages

(i) An industrial district which is dependent chiefly on one great industry is exposed to the risk of wide-spread unemployment and sufferings in periods of depressions in that industry, as the labourers cannot easily move to another industry during that critical period.

(ii) When a localised industry provides employment to one kind of labourers, e.g., when iron industry, owing to the arduous nature of the work, gives employment to only healthy male adult workers, the employers have to pay higher rates of wages while the average money earnings of the workers remain very low as other members of the family who, by reasons of sex, age, or want of aptitude for the particular industry, cannot find any employment in that industry.

(iii) Lastly, congestion and over-crowding are a necessary concomitant of localisation. This raises the ground rents and

prices to a high level and makes the standard of living costly. The big industrial cities of modern days are responsible for "squalor, drink, disease, immorality, crime and in the end demand hospitals, prisons and asylums in which we seek to hide away the human derelicts of society that are largely the results of society's own neglect."

In order to mitigate the defects of localisation, subsidiary industries should be started to absorb the different classes of labourers. A well-devised scheme of town-planning is an effective remedy against congestion and over-crowding.

THE SCALE OF PRODUCTION

Production is conducted either on a large or small scale. Each has got its own good points, and that is why we find both scales of production flourishing side by side. But the modern times have witnessed a very rapid growth in the average size of the industrial business. In fact, specialisation of functions together with larger volumes of output turned out under one organisation has been the watchword of economic progress. Since the industrial revolution, owing to the division of labour and the consequent profitable employment of machinery, remarkable development in transport facilities and the widening of market, production on large scale has become the accepted dogma of the industrialists.

Large scale production refers to the production of a commodity on a large scale and it involves the employment of a large number of labourers, the use of large quantity of raw material and power-driven machines under the same management. The growth of giant industries employing the most massive machines, where a layman's imagination staggers and understanding refuses to work, is a modern phenomenon. Large scale production is characterised by concentration and the employment of the various factors of production on a large scale, be it in manufacturing industries or in such commercial enterprises as railways, tramways, shipping or distributive agencies. The advantages of the large scale production, in the words of

Penson, may be summed up in one phrase—*saving of productive effort*, that is, through economies of large scale production a given result can be obtained with less effort—or, in other words, at less cost.

Advantages of Large Scale Production

1. *Economies of division of labour.* We have already indicated the economies resulting from the division of labour and their repetition seems superfluous. But it may be referred to in passing that in large scale production labour can be classified more easily according to its capacity; expert skill can be employed to operate intricate and delicate processes and the head of the business, after delegating the routine functions to expert managers, can devote himself wholly to the larger questions of policy and general superintendence.

2. *Economy of machinery.* The gain from the employment of machinery in a large scale production arises in the following manner.

(a) A large establishment can afford to install expensive and specialised machinery even for comparatively insignificant processes which result in considerable economies in production.

(b) It can, with larger funds at its disposal, also afford to buy up-to-date machinery and discard old ones, whereas in a small scale production it is not possible.

(c) A large scale producer as against a small scale producer can employ experts to carry on improvements and experiments with a view to minimise the cost of production.

(d) Cheap motive power can be secured as greater the quantity of motive power consumed in a factory, the expenses of production per unit tend to become lower and lower.

(e) A large establishment has also its own permanent arrangements, for the repairs of buildings and machinery, which greatly reduce the working expenses.

3. *Economy of land.* In proportion to the output of the factory, a large manufacturer has to pay smaller rents than the small scale producer.

✓ 4. *Economies of buying and selling wholesale.* More favourable prices at higher rates of discount and commissions and better qualities of raw material can be secured by making heavy purchases. Similarly, an appreciable economy can be effected by disposing of finished products in larger quantities. Moreover, when goods are purchased in larger quantities, a large scale producer gains in the shape of rebates on wagon-loads usually allowed by the transport agencies.

✓ 5. *Economies of material and the utilisation of by-products.* In larger concerns the wastage of material is comparatively less. Not only is the waste of raw material in bigger establishments checked, but efforts are made to utilise waste product and by-products so much so that even small things which would have been thrown away under small scale production are effectively employed for further production of wealth. For instance, in the mineral oil industries, material which was thrown away as waste is now utilised for the production of lubricating oil, etc. It is said that not a single hair of the animals that enter into the big slaughter houses of the United States of America is wasted.

6. *Economy of advertisement.* The cost of advertising and the expenditure incurred in the employment of agents and commercial travellers to canvass the sales of the products of a big establishment are comparatively less in proportion to its output. It is beyond the capacity of a small scale producer to give publicity to his goods to the same extent.

Limitations of Large Scale Production

From the numerous economies effected in large scale production, one should not run away with the idea that the larger the scale on which a business is carried on, the more profitable it must be. There are certainly some limits beyond which further expansion is uneconomical. The following are the main limitations of large scale production.

1. *The capacity of the employer.* Efficient management and supervision is the keynote of a successful large business.

With the expansion in the size of the enterprise, so many complexities arise that completely surpass the capacity and energy of an ordinary employer. The minute supervision of the working of the different factors of production together with an effective control of the hired labour which has got no personal interest in the success or otherwise of the business demands the greatest abilities of the directing agency. Unless an employer is gifted with an exceptional combination of versatile qualities for thoroughly organising the great and varied complexities that arise in the course of a large business, there are fewer possibilities of success and hence the expansion of a business is regulated by the capacity of the employer.

2. *The extent of the market.* Large scale manufacture implies production of commodities on a stupendous scale. If the demand for a particular kind of commodities is small and is characterised by constant fluctuations, it is not economical for a large scale producer to glut the market with superfluous goods which have no demand in the market. Other things being equal, the larger the market, the more steady and uniform the demand, the greater will be the tendency towards large scale production. Large scale production by producing articles at cheaper prices leads to an extension of the market. 'In earlier times when producers sold their goods only to their immediate neighbourhood, the market was very narrow and the scale of production very small. But at the present day with our highly developed means of transport, with easy communication by post, telegraph and telephone, with our banking system and our various forms of commercial machinery, producers find a market in the most distant places and the possibilities of increasing the size of their business are enormously increased.'

3. *The nature of the business.* Certain types of businesses are more successful on a small scale than on a large one. For example, in agriculture large scale production beyond a certain limit is not economical, on account of the seasonal character of the work with no benefit arising out of the division of labour and the costly expenditure incurred in the supervision

and management of farming operations scattered over a long area. The large scale production is also not possible in such business as tailoring, where individual tastes or requirements have to be satisfied, or again, in such trades as the manufacture of ornaments, where the "master's eye" needs close supervision over every minute process of the work.

Scale of Production in Agriculture

In agriculture too, like all other departments of production, cultivation of land is conducted, either on a small scale by a cultivator of small resources working and supervising each and every process of the work with minute care and special attention himself, or on a large scale by a capitalist-farmer who employs an extensive acreage of land, a vast number of field labourers, an up-to-date agricultural machinery and implements, and turns out large quantities of products under the direct management of the salaried supervisors. Large scale farming is generally to be met with in new countries, where extensive tracts of land and large amounts of capital are available. In countries like America, Canada, Russia and Australia, large scale farming is practised to the great profit of the agricultural industry. Agriculture, even in advanced countries, is commonly conducted on the basis of one-man or one-family producing unit on account of some biological and economic factors involved in its working.

Advantages and Disadvantages of Large Scale Farming

Briefly, the advantages of large scale farming over small scale one consist in the proper rotation of crops, a good drainage or irrigation system, suitable facilities of fencing, roads and foot-paths, greater division of labour and the consequent economic utilisation of the specialised machinery, application of chemical fertilisers and farmyard manure, availability of expert and scientific skill, economies effected by making wholesale purchases and sales, opportunities of raising particular crops accord-

ing to the suitability of each plot of land, and better facilities for carrying out experiments. In raising staple crops like wheat, cotton, rice and sugarcane which do not require much personal supervision and careful nursing, large scale farming has proved more economical. A capitalist-farmer practising agriculture on a large scale needs to have great executive and business ability.

Despite all these advantages, there are certain limitations in large scale farming which so clearly explain the persistence of small scale farming. Broadly, we may summarize the disadvantages of large scale farming under three heads.

(1) The first difficulty in bringing the large scale farm to a successful issue lies in its costly supervision and management, as the area over which agricultural operations are spread is too large and as such the "master's eye" cannot efficiently work everywhere. A great loss of time and energy is incurred in going from one part of the farm to another, in carrying tools and machinery and other requisites from one place to the actual spot of operations. Thus economy of time is not so much possible in agriculture as in some manufacturing industries.

(2) The second difficulty arises out of the seasonal character of the work. In a factory, operatives after being assigned different jobs according to their capacity and energy work on those operations continuously in exactly the same manner year in and year out and a very little amount of supervision and management is needed to direct the working forces of the factory. But agriculture is a biological industry rather than mechanical one. In large scale farming, it is pretty difficult for the farm manager to reorganise several hundred labourers many times during the farming season in accordance with the variations in the meteorological conditions. Supervision becomes costly and unwieldy too, where the nature of the work changes from month to month, day to day, and even from hour to hour. In agricultural industry, as contrasted with manufacturing industries, the farm manager has to contend with abnormal, unforeseenable and uncontrollable whims of the

weather. For example, on the appointed sowing day, if a hail storm were to come, all pre-conceived plans will be upset and the whole working force of the farm will either sit idle or have to be reorganised which requires men of great promptness, intelligence, resourcefulness and executive ability. Owing to these handicaps, division of labour and machinery find little place in an agricultural industry.

(3) Lastly, the individualistic tendencies of the cultivators and their natural aversion to work in gangs prove a great obstacle in the way of successful organisation of a large aggregation of farm labourers under one management. They are unaccustomed to disciplined hours of work and hence their preference to work independently.

Farming in India

India is a land of small holdings, petty cultivators and small villages, where small scale is the general rule. In our country, on account of the appalling poverty of the agriculturists, the stay-at-home habit of the people, the minute sub-division and fragmentation of land holdings, the want of efficient irrigation and transport facilities, the low organising capacity of the cultivator mainly because of his want of education, the excessive pressure of population on the soil, and the absence of enterprise, large scale production in agriculture is conspicuous by its absence. The small scale cultivation is practised on traditional lines. But in spite of his illiteracy and conservatism, he understands his business well without having attended classes in agricultural schools and colleges. As J. Mollison remarks: "To those who are sceptical I can say in parts of the Presidency, cultivation by means of neatness, thoroughness, and profitableness cannot be exceeded by the best gardeners or the best farmers in any other part of the world. This statement I deliberately make and I am quite ready to substantiate it." Although the application of science to agriculture concerning implements, machinery, utilisation of power, large irrigational works, experimentation on crops and diseases, artificial manures, etc., can bring about

considerable economies and be of immense help to the Indian agriculturists, yet owing to a variety of factors mentioned above the scope of scientific cultivation on a large scale is very much limited in India. At present, the yield per acre is extremely low and millions of agriculturists who are the hardest worked people of the country starve and do not see even one full meal in a day. They work most industriously and intelligently, live perhaps a most frugal life and still they live on the verge of starvation. It is not that they do not raise sufficient amount of crops for their maintenance, but on account of their ignorance and poverty they are exploited and cheated both in private and public life.

As the agricultural industry is the mainstay of the country and as the progress of the nation and the development of its resources are intimately bound up with rural development and progress, it should be the first and the foremost consideration with the legislators, reformers and experts to increase the prosperity of the agricultural masses, and serious and earnest efforts should be made to devise ways and means so as to enable the cultivator to produce his crops at the smallest costs to ensure him the greatest amount of net profit. *The solution of the problem lies not in increasing the yield of his field but in devising means to give him increased profits which alone can bring about his prosperity and fulness of life.* The illiteracy can be removed by the establishment of primary schools, having an agricultural bias on extensive scale in rural areas. So long as there is illiteracy, all suggestions for the improvement of agriculture will fall flat upon their ears. The economies of large scale farming can be secured by the formation of co-operative associations of individual farmers. For example, farmers may combine on co-operative lines to obtain cheap credit and to purchase costly machinery and implements for their common use, or they may join in sinking wells with pumping arrangements for irrigating tracts now depending for their cultivation on the vagaries of the Monsoons, or they may allot a separate pasture for the grazing of cattle, or they may form common purchase and sale

societies to eliminate the profits now appropriated by the *Mahajan*. Co-operation is the real solution of many of the economic ills of the agriculturists, and if its principles are carried out on right lines the movement will prove a beacon light to the agriculturists who are now enveloped in the darkness of ignorance, fatalism, misery and destitution.

Vitality of Cottage Industries in India

Cottage industries are those which produce articles of use on a small scale. It is also called family system of production with little or no division of labour in contrast with the system of factory production, where there is a large aggregation of men and machines under an employer and division of labour is carried on at a high pitch of excellence. Cottage industries must be distinguished from the factory industries inasmuch as the former are carried on by artisans on a small scale, mostly in their own homes assisted by the labour of the members of the family, or a few hired labourers or apprentices. Some cottage industries are carried on by people engaged in them as their primary occupation while some are taken up by the agriculturists to supplement their meagre and uncertain income as their secondary occupations.

India at a very early stage of civilisation when she was at the height of her glory and splendour attained a high degree of skill and dexterity in her handicrafts and artistic industries which were not surpassed by artisans of any other country. At a time when the west of Europe, the birthplace of the modern industrial system was inhabited by uncivilised tribes, India's artistic products were highly appreciated and extensively marketed throughout the important countries of the world.

As a result of the Industrial Revolution in the West and the advent of Britishers into India, the cottage industries which had once enjoyed a world reputation began to decline and the decline was most marked about the middle of the nineteenth century when many forces served to precipitate their downfall. The importation of cheap articles manufactured abroad by the

large scale industries equipped with the most efficient organization and labour saving appliances, the disappearance of the patronage of the Mughal Courts and the nobility resulting in a complete cessation of the main demand for the products of the indigenous handicrafts and the consequent changes in the tastes and outlook of the people, the laissez-faire policy of the Indian Government, and lastly, the unpreparedness and the absence of any initiative among the artisans to adapt to the changing circumstances and to combat against the corroding tide of the Western industrialism, led to the extinction of the cottage industries and to more intensive ruralisation of the country. Although terrible has been the blow from the side of machine industries, both of India and foreign countries, the indigenous industries have survived the rude shock and in spite of all their backwardness and drawbacks, they possess a remarkable vitality and constitute a very significant factor in the economic and industrial life of India. Cottage or small scale industries are to be found in almost every village and according to the Report of the Indian Industrial Commission the number of the workers in the various cottage industries is still much larger than those of the operatives employed in the organised industries. The survival of the cottage industries can be attributed to the advantages accruing from the artistic nature of the industries which, by their very nature, offer no scope for standardised production, proximity to markets, cheap labour in the off-seasons, and the free services of the children and other members of the family.

Their Present System of Organization

The main defect of the indigenous industries carried on a small scale seems to lie in the lack of training and education of the artisans and in the absence of any suitable organisation to bring their co-ordinated efforts into full play. To take a typical example of the handloom weaving industry which gives employment to about sixty lakhs of workers and supplies nearly one-fourth of the demand of the country, we find the organization of the industry hopelessly inadequate and defective. The

handloom weaver is the entrepreneur, labourer, landlord, seller and buyer, and sometimes a capitalist as well, if he happens to own his capital; he is one in all with the result that he is inefficient all round, as the various forms of activities undertaken by an illiterate artisan with perhaps no knowledge of business principles cannot be discharged efficiently. The methods of production are too inadequate and wasteful. The want of any suitable facilities for finance, the supply of raw materials and the marketing of finished products deprives them of much of the fruits of their economic labour. A large number of artisans have fallen into the clutches of the *Mabajans* who advance money for purchasing capital goods and other expenses at exorbitant rates of interest and purchase the finished articles at prices dictated by themselves with the consequence that they eke out a very miserable existence as much of the profits are intercepted by the middlemen. The evil is aggravated by their want of education and sheer ignorance as a result of which they are exposed to the deceitful practices of the shrewd middlemen. The system needs overhauling.

Importance of Cottage Industries

The establishment of the present languishing cottage industries on a more stable basis, with a better system of co-operative organisation, assisted always by the ready advice and monetary help of the Government, will be a real asset to the country. The development of the cottage industries is immediately required as it will help the poor people of India in many ways. There is no antagonism between cottage and factory industries; both can flourish side by side as is evidenced in the case of the highly industrialised countries like Germany, Japan, France and Switzerland, where cottage industries, in spite of the tough competition of power industries have not been ousted or superseded. The encouragement of the cottage industries will provide subsidiary employment and income to the surplus agricultural labour which has to remain idle for a major portion of the year. Moreover, the fears of famines and other unforeseen natural

calamities can to a large extent be mitigated, if the people have a subsidiary occupation to fall back upon. In the words of an economist, they will serve as a second string to the bow of the agriculturists. The annual quantity of production of the country can be considerably increased by the employment of child and female labour, if the industries are carried on in the midst of their families.

Again, many of the evils attendant upon the factory system such as overcrowding, loss of freedom for the worker, drunkenness, low and expensive pleasures of the cities and the unhealthy conditions under which workers have to work and live may be avoided to a certain extent in the case of small industries. On the top of all that, the cottage industries are more suitable to the genius and temperament of the people as they dislike the discipline of regular hours of work and the strenuous exertion in a factory and prefer to earn a scanty living in their own villages rather than travel to distant lands in search of employment. The introduction of cheap hydro-electric power and its distribution in the surrounding rural areas is likely to open another important chapter in the career of our cottage industries. Hand-spinning and weaving, calico printing, dyeing, carpet weaving, metal working, sericulture, embroidery work, work in precious metals and jewellery, wood-work including carpentry, furniture and cabinet making, pottery and ceramic wares, leather works, fine artistic works such as carving in wood, ivory or stone, and toys are some of the important cottage industries of India that may prove to be the most successful handicrafts in the future industrial economy of the country, provided organised efforts are made to strengthen their present decadent condition.

Suggestions for Improvement

In view of the fact that our cottage industries still survive with remarkable tenacity and upon whose prosperity depends the prosperity of the millions of Indians, means should be sought for their consolidation and improvement.

(i) *Education of the workers.* We have already seen how the artisan is handicapped in different ways by his want of education. He is conservative, unambitious and unenterprising; he should be given general and technical education. Many technical schools have been started for imparting technical education, but for a variety of reasons they have not yet availed of these opportunities. Industrial schools of a more practical character are the need of the moment.

(ii) *Financial assistance to cottage industries.* Co-operative credit societies and in some cases the Department of Industries might lend money on easy terms to the craftsmen. Most of the artisans like agriculturists are in the sticky grip of the *Mahajan*. Tools and up-to-date machinery should be supplied to the artisans to improve the efficiency of production.

(iii) *State patronage.* A bolder policy and well-chalked out programme of encouraging and patronising artistic industries should be adopted by the Government. The propaganda for the popularization of the cottage industries should be conducted in a business-like spirit and concrete proposals for any improvement should be backed by monetary support and expert advice.

(iv) *Provision of markets.* Co-operative credit societies should be organised for the supply of raw materials to individual artisans and the sale of the finished articles deposited by those artisans in a common warehouse. Owing to the lack of marketing facilities, the artisans are stripped of their due profits, and so efforts should be made to completely oust the middlemen from their midst. The Arts and Crafts Depots of Lahore and Lucknow were started in order to remove this handicap to some extent. Industrial exhibits will also serve to extend the demand for such articles.

(v) *Public patronage to home-made goods.* A noteworthy feature of the recent years in India has been the growing tendency among its nationals to use only those articles produced in their own country, even if they are more dear and less fashionable and durable. In fact, the deep realisation of the foreign

economic domination, a rise in the nationalistic spirit and the Swadeshi Movement inaugurated by Mahatma Gandhi have all concurrently given a new fillip to the rise and expansion of the cottage industries in India. If we want to see our cottage industries prosper and starving millions properly fed and clothed, we will have to make some sacrifice so long as they are in their infantile stage and not placed on a sound footing. There must be a determination on the part of the people to consume goods manufactured in the country and they must inscribe upon their hearts that public patronage is far more conducive to the success of the cottage industries and the prosperity of the nation at large than the highest form of any Government patronage.

FORMS OF BUSINESS ORGANISATION

In the initial stages of industrial society, organisation played a very minor part in production. The same artisan owned the land, labour and small capital and organised the whole business sharing in profits and losses as well. But with the growing complexities and increasing volume of business, the business management has had taken new shapes suited to the new requirements of the business. Various types of productive organisations ranging from the single entrepreneur system to the well-organised large scale industries employing highly specialised labour according to the size of the business, are to be found flourishing side by side. In manufacturing industries the various types of business organisations in the modern world may be enumerated as follows.

The Single Entrepreneur System

It is the oldest and the simplest form of business organization in which a single entrepreneur after furnishing himself with his own land, labour and capital or, as he is found in some instances, hiring such land, labour and capital according to his requirements, works the raw materials and directs the general policy of the business. The entire responsibility of the business falls on his own shoulders; if the business succeeds the

profits are his, if it fails, he bears the losses. This form of business management is best suited to agriculture, small retail trade and small cottage or shop industries. This is why the entrepreneur in this system also goes by the name of cottage worker or home worker. There are countless artisans in the Indian villages and small towns who work on their own account and produce articles on a small scale for local consumption. The success of the business in this system entirely depends on the organising ability and initiative of the entrepreneur.

The chief advantage of individual ownership lies in the great personal interest of the employer in the business, and consequently a greater incentive to secure economy and efficiency than in any other form of business organisation. The disadvantages are that (a) the man at the head of the business, however intelligent and capable, cannot successfully direct all departments of a large and complex business; (b) the capital that an individual can command is necessarily limited and (c) the unlimited liability of the individual entrepreneur to some extent checks enterprise and experiments so essential to success and improvement of the business.

Partnership

With the expansion of business, in pursuance of prosperous trade and ever-widening markets, the need for more capital, skill, energy and experience was increasingly realised and partnership business came into existence to replace the individual entrepreneur system, where the latter proved inadequate and defective. In the case of a partnership two or more but always a limited number of partners may join to carry on a large and difficult enterprise contributing their resources, sharing losses and gains in definite proportions settled by a mutual agreement. The management of the business is also divided, and each takes up that work in which he is most efficient. The partners are jointly responsible for the debts of the firm and the liability of each one of them is unlimited i.e., each partner is legally liable to the extent of all his property (whether invested in the partner-

ship or not) for all the obligations contracted in the course of business by any other member of the firm.

The chief advantage of partnership lies in the greater control of capital and organising ability over that of individual ownership. Better efficiency can be secured in the business by utilising the special aptitudes and attainments of the partners. More capital can be secured than in the case of single entrepreneur system, and it can adapt itself more easily to different varieties of production and demand than the larger and more cumbrous forms of business organisation. But unlimited liability is a great defect and tends to restrict enterprise. The business is also liable to break down due to the personal quarrels and on the retirement, death, lunacy or bankruptcy of a partner.

Joint-stock Companies

When the size of the business began to grow larger and larger and more hazardous as well, it became increasingly difficult for a few partners to invest an adequate amount of capital, and hence the partnership system was substituted by the joint-stock system. A joint-stock company has been defined as "an association of individuals for purposes of profit, possessing a common capital contributed by the members composing it, such capital being commonly divided into shares, of which each possesses one or more, and which are transferable by owners." The main differences are that in a joint-stock company, unlike partnership, shares are easily and freely transferable owing to the wonderful mechanism of stock exchanges, and secondly, in a partnership, each partner is personally liable for the whole of the debts of the partnership business, whereas in limited company the members or shareholders, as they are properly called, have no individual liability to its creditors for the debts incurred by the company but their liability is limited to the amount of shares they have bought. For instance, if a shareholder has purchased, say five shares of rupees fifty each, his liability for the debts of the company ends on payment of Rs. 250. The limited liability system means that the risks of

business in the case of individual shareholders are specified and do not exceed the extent of the share or shares purchased by him. The method by which the individual resources are pooled up may be described somewhat as follows.

The total capital (or *authorised capital*) is that capital which the company is authorised to raise from the public. The *subscribed capital* is that part of the authorised capital of the business which is issued or thrown open to the public for subscription. The *paid-up capital* is that part of the subscribed capital which the shareholders have paid towards the value of their shares. It becomes equal to the subscribed capital when the full value of each share has been paid to the company. The ultimate undertakers of the risks incurred by a joint-stock company are shareholders who seldom take any active part in controlling or superintending the business. For the purpose of general management, shareholders elect a Board of Directors. If the Directors happen to be too many in a Board, the management is further delegated to one or two Managing Directors, elected by the Board of Directors from amongst its members. The Directors are not expected to give their whole time to the business but "they are supposed to bring wide general knowledge and sound judgment to bear on the broader problems of its policy and at the same time to make sure that Managers of the company are doing their work thoroughly." The detailed and day to day management of the company is left in the hands of the hired superintendents and managers who are not required to bring any capital into it. The Directors declare half-yearly or annually profit and loss accounts; the profits being divided equally on each share.

The advantages of the joint-stock movement are numerous and incalculable. All the advantages of large scale production and division of labour are best utilised by the form of business organisation. The limited liability, the easy transferability of the shares, stability, efficiency and flexibility of the management and a great scope for undertaking new experiments are some of the merits of the joint-stock companies. A large amount

of money which would have been spent unproductively or buried in the bowels of the earth is now pooled up for productive purposes by the share system. Owing to the limited nature of the risk, a large number of people is enabled to invest their petty savings in the joint-stock companies. The best illustration of the advantages of the joint-stock companies can be seen in the establishment of such colossal enterprises as the Tata Iron and Steel Works or the Standard Oil Company, etc., which would otherwise have been impossible to start. There are, however, certain disadvantages. As a result of the increasing complexities and the immensity of the size of the business, the two functions involved in organisation are separated. Shareholders who are the ultimate undertakers of risk and who meet seldom to look into the affairs of the company are often duped by the directors and managers. Secondly, owing to the lack of personal touch a wider gulf has resulted between the employers (capital) and the employed (labour) giving rise to many unwholesome conflicts. Lastly, the conducting of rash enterprises, mismanagement and other corrupt practices, furnish a sad commentary upon this type of business organisation. Various remedies have been suggested to remove these defects from this form of business organisation and the results achieved are tolerably successful. Notwithstanding these disadvantages, the joint-stock system has rendered very useful services in the industrial development of a nation.

Co-operative Production

To do away with the exploitation of the labouring classes at the hands of the powerful employers, the co-operative system of production has been ingeniously devised. Co-operation is meant for the weak, poor and oppressed members of the community and it tries, in all its various spheres, to do away with the services of the middlemen who are oftener than not mere parasites. Co-operation has been applied in diverse spheres to achieve different objects, viz., (a) Co-operative credit, in which several weak and poor individuals combine into a corporate body to

obtain on their united liability cheap credit and to eliminate the exorbitant rates of interest charged by the money-lenders; (b) Distributive co-operation or consumer's co-operation, in which the workers and other people unite, as consumers, to purchase their requirements of commodities, receiving their shares of profit in proportion to their purchases; (c) Producer's co-operation, in which the workers unite as producers for purely productive purposes. Here we shall content ourselves by presenting a running sketch of the producer's co-operation as it is one of the latest forms of productive organisation which is replete with immense possibilities.

A producer's co-operative society runs like this. A number of workers may on their own initiative co-operate in order to produce a certain type of commodities, thus dispensing with the big employer or organiser. Labourers are the workmen and masters as well, and they take the entire responsibility of risk and guiding production in their own hands. Capital is subscribed or borrowed at a fixed rate of interest. The management of the society is generally carried on by one of the members who is paid a fixed salary. Each member of the society possesses equal opportunities in the management irrespective of the amount of shares he holds.

The advantages of this form of productive organisation are many, provided the workers follow the guiding motto—each for all and all for each—of co-operation in a true spirit. The labourers work with more zeal, interest and industry as the profits are solely their's. Labour conflicts are done away with. Workers being the masters can very easily find out whether or not the business is being run honestly and efficiently. But the defects are equally important and noteworthy. Undue interference without any proper knowledge or discretion of individual members—for every worker is a master of the business—is a great clog in the efficient machinery of the business. Nobody tries to act up to the dictates and wishes of the manager, who is one of the elected members. "Too many cooks spoil the broth" is a proverb which applies very truly in the

case of producers' co-operative associations. Secondly, the managers of a co-operative society possess only mediocre qualities; they seldom have "the alertness, the inventiveness and the ready versatility of the ablest of those men who have been selected by the struggle for survival, and have been trained by the perfectly free and unfettered responsibility of private business." For the success of this form of organisation, the inculcation of such qualities as business honesty, industry, mutual confidence and sense of duty is too indispensable.

Labour Co-partnership and Profit-sharing

In the former labour is given the right to have representation on the Board of Management and to take a share of the profits made by the concern, whereas in the latter, a certain percentage of the profits is assigned to labour without its representation. These two other forms of organisations are advocated to bring labourers and capitalists into harmonious relations.

Government Enterprise

In modern times enterprises formerly carried on by private individuals are now largely taken over by the Governments and are organised under "Public ownership." Works of social utility and works of experimental nature requiring a huge amount of capital are usually undertaken by the state. In such State and Municipal enterprises, the tax-payers are the ultimate bearers of risk. The management is committed to the Government officials who are generally devoid of that initiative together with industry which is the characteristic feature of a private entrepreneur. But in this elementary book we can scarcely pursue the controversy whether State management or company management is efficient. In India, railways, irrigation projects, post-office and telegraph, etc., are all State enterprises, the profits arising out of these undertakings go to enrich the coffers of the State and give a great relief to the tax-payers.

LAWS OF RETURNS

The Law of Diminishing Returns

If we intelligently notice a cultivator over his work, we shall find that he spends a certain amount of fixed labour and capital over a certain plot of land appropriate for the different crops. That is to say, some sort of standard of work is recognised by every cultivator which gives him the most profitable return in ordinary circumstances. For instance, in the western districts of the United Provinces cultivators as a result of their long experience have found out that four or five ploughings (of course with the Indian plough) together with three waterings, a fixed quantity of seed, manure, etc., and one weeding are sufficiently remunerative for a wheat crop. If you ask them to increase to ten ploughings, they will scarcely follow your advice. Why is it so? Because a practical cultivator knows that further application of labour and capital (here in the shape of increased ploughings) to a fixed piece of land may increase produce as a whole but the additional produce so obtained would not pay him for the extra cost incurred by him. For instance, he knows very thoroughly that if he trebles the amount of labour and capital on the same plot of land under the same conditions, the produce will not increase by three-fold. In other words, there is a point beyond which additional expenditure of labour and capital on even the best land will be followed by less than proportionate increase in the amount of the produce raised—he will get only diminishing returns. This fundamental tendency specially in the case of the agricultural crops, is known in Economics as the Law of Diminishing Returns.

In its most general form the Law states that in every kind of productive enterprises, if one factor of production is kept fixed while the other factors of production continue to be enlarged, a point is reached, sooner or later as the nature of the enterprise may be, when the output of the productive enterprise does not increase proportionately to the increase in the other variable factors of production. It should not be forgotten, how-

ever, that the Law relates to the amount of produce raised and not to its price. In the beginning the increased doses of labour and capital to a fixed plot of land may give more than proportionate returns, but sooner or later a point is reached when the yield realised results in a less than proportionate increase to the additional expenditure. The Law of Diminishing Returns as applied to land is thus provisionally stated by Professor Marshall: "An increase in the capital and labour applied in the cultivation of land causes *in general* a less than proportionate increase in the amount of produce raised, unless it happens to coincide with an *improvement* in the arts of agriculture." The word 'in general' and 'improvement' are highly significant as they imply the following limitations of the Law of Diminishing Returns.

Limitations

Firstly, increasing returns to fresh doses of labour and capital applied on the poorly and under-cultivated lands may precede diminishing returns but the Law will ultimately hold good when the final limit is reached. Were it otherwise, every cultivator could have easily by fresh application of doses of labour and capital raised the required amount of produce on a few acres instead of purchasing or renting large acres of land. It is mainly due to the operation of this Law that a cultivator after applying a certain amount of labour and capital soon realises the existence of that limit, where further expenditure will not remunerate him and hence he takes resort to other fields.

Secondly, the Law holds true only under static conditions, there being no improvements in the arts of agriculture. This limitation is necessary, as sometimes new improvements in the arts of agriculture may bring about increasing returns to those plots which were subject to diminishing returns under the former system of cultivation. For instance, it is understood by notable authorities that the productivity of our land can be considerably increased by the introduction of scientific agriculture involving, thereof, further investment of capital and

labour in efficient agricultural machinery, chemical fertiliser, etc., and the replacement of the old methods of cultivation so tenaciously practised by the Indian cultivators. But in such instances too, the Law can be temporarily held in check and a continued increase in the application of capital and labour to land must ultimately result in a diminution of the extra produce which can be obtained by a given extra amount of capital and labour.

Causes of the Operation of Diminishing Returns

Now, let us attempt to analyse the causes which expedite the operation of the Law of Diminishing Returns so soon in agriculture, as opposed to manufactures, where it can be postponed for a longer period of time. Land we have already seen is a free gift of nature endowed with some natural properties. Certainly, the artificial properties of the soil have greatly been improved in advanced countries through chemical and mechanical processes such as by putting in chemical fertilisers and giving other facilities for the growth of vegetation in the shape of irrigating facilities or draining the water-logged lands. But man has very little control over the natural properties of the soil. "Every acre has given to it by nature an annual income of heat and light, of air and moisture and over these man has but little control." Indeed some slight changes have been affected in the climatic conditions by extensive drainage works or planting forests or cutting them down, but the wholesale improvement with the application of labour and capital in the natural properties of the soil is not a practical proposition. As such, when the natural properties are fixed and provided gratuitously by nature and over which man has but little control, the yield must also be limited and the increased application of labour and capital, sooner or later, should prove helpless in increasing the productivity of land. The part played by nature in agriculture, is most dominant. Agricultural production, unlike manufacturing production, is limited by the time and space necessary for the vegetable and animal life. In agriculture,

before the farmer can harvest a wheat crop, he must wait for months and months together; whereas an industrial worker can carry on his production at his mechanical process day and night irrespective of the seasons and the climatic conditions which play so important a role in agricultural production. It is for this reason that Marshall has made his famous remark: "The part nature plays in production conforms to the Law of Diminishing Returns and the part which man plays conforms to the Law of Increasing Returns."

Extent of Applicability

The Law of Diminishing Returns has got almost an universal applicability, the more so in all those occupations which are directly concerned with the production of raw materials and food-stuffs. The Law is strongly applicable to all the extractive industries or where the influence of nature is eminent.

(1) *Agriculture*. We have already discussed in the previous paragraphs the operation of the Law of Diminishing Returns in agriculture and have seen how in the progressive cultivation of every field, sooner or later, a stage is reached after which every "successive increment of the product will be obtained only through a more than proportional expenditure of labour."

(2) *Fisheries*. The Law is also applicable to river fisheries as the returns to the successive doses of labour and capital show a rapid diminution owing to the limited supply of fish. But in the case of sea-fisheries, opinions differ. Some say that the Law does not operate as the sea is vast and fish are very prolific and practically unlimited supply can be drawn from the sea without appreciably affecting the number that remains; others maintain that the Law is applicable, if the sea is fully exploited and, moreover, as more distant sources of supply have to be tapped, an increasing cost is incurred on every catch and transport which means diminishing returns. In conclusion, it may be said that to some extent the Law is applicable to sea-fisheries as well.

(3) *Mines*. In mining too, the Law of Diminishing Returns is fully operative, provided there are no improvements as regards the art of mining. The returns to successive doses of labour and capital, after a certain point, tend to diminish owing to the greater depth of the pit from which minerals are extracted and raised to the ground. But the chief distinguishing point between agriculture and mines is worthy of notice. The supply of agricultural produce is like a perennial stream and the soil will ever yield agricultural products if properly cultivated and frequently renovated; mines are as it were "Nature's reservoir," and once exhausted cannot produce any further.

(4) *Building Sites*. In cities, where high premium is put upon building sites, stories upon stories are piled up to economise land but this process cannot be pursued indefinitely. The additional application of capital and labour on a certain piece of land in each successive storey results in diminishing returns, i.e., less than proportionate returns of conveniences. After the construction of a few stories, say three or four, the cost becomes too prohibitive while the advantages go on decreasing. Obviously it is much more easy and convenient to transact one's business on the second storey than on the seventh one.

(5) *Manufactures*. The Law of Diminishing Returns is also applicable to manufactures with this difference that in manufacturing factories its operation is considerably delayed by man's ingenuity. The whole body of the agricultural produce is subject to the influence of diminishing returns, and hence the raw materials used by industries are affected in value by the increasing difficulties which attend each successive increment of the product. However, the tendency to diminishing returns in manufactures is more than counterbalanced by the increased knowledge, inventive genius, and skilful organisation of man effecting vast internal and external economies.

Forces Counteracting the Law of Diminishing Returns

Let us examine the possible methods by which the tendency to diminishing returns can be counteracted. We must strike a note of warning at the outset that although the tendency may be counteracted for a considerable period of time by improved methods of cultivation and by the fitful course of the development of the full powers of the soil, yet man must eventually give way to nature's inexorable demands. 'The evil day is only deferred,' but it cannot be controlled. The following are the various methods resorted to counteract the operation of the Law of Diminishing Returns in agriculture:

(i) By developing the productivity of the soil with the increased doses of labour and capital the tendency can be temporarily held in check.

(ii) By improvements in the arts of agricultural production, e.g., such as better rotation of crops, application of chemical fertilisers or better manure, use of agricultural machinery, and scientific processes, and proper organisation, the tendency to diminishing returns can be obviated for the time being.

(iii) Improvements in the means of communication and transport, e.g., railways and steamships by making the carriage of agricultural products cheap and rapid from one country to another tend to counteract the operation of the Law of Diminishing Returns.

(iv) With the improvements in the arts of cultivation and means of communication and transport or an increase in the amount of capital and labour or a change in the skill or enterprise of the cultivator or a combination of these, the order of fertility can be powerfully changed either by intensively cultivating the land or growing rich crops on lands once yielding agricultural products under increasing costs. Fertility is relative to place; land regarded as inferior under one set of conditions may become fertile under different circumstances and the additional dose of capital and labour may give more than

proportionate results. But the returns cannot go on increasing indefinitely and diminishing returns must ultimately prevail in spite of all these improvements.

The Law of Increasing Returns

Generally speaking, the Law of Increasing Returns applies to manufactures, where the part played by nature is much less important. The Law of Increasing Returns has a tendency to operate in manufactures in general and transport in particular. The Law states that under certain conditions every additional application of labour and capital in a particular business gives more than a proportionate return leading to diminishing cost of production. The tendency to increasing returns may be due to better division of labour, specialisation of machinery and cheap and rapid facilities of transport and communication, the respective advantages of which we have already discussed and the numerous economies resulting from their introduction also thoroughly examined. Since nature plays a minor part in manufactures and human element is more dominant, the increasing returns depend upon the degree of the development of the industry together with the efficiency of organisation. The Law of Increasing Returns has been thus stated by Marshall: "An increase of capital and labour leads generally to an improved organisation which increases the efficiency of the work of capital and labour." He also maintains that while the part which nature plays in production conforms to the Law of Diminishing Returns and the part which man plays conforms to the Law of Increasing Returns.

In a particular industry, under increasing returns the cost of production decreases per unit of productive power as the quantity produced increases, owing to the numerous *external* and *internal* economies that arise from an enlargement in the scale of business. The external economies are a result of the general development of the industry and which accrue to all the firms engaged in that industry independent of any internal organisation of the individual firms, i.e., as a result of the localisation of

any particular industry numerous economies are realised by the different mills engaged in that industry through the invention of new machine, the growth of subsidiary industries enabling a cheaper supply of raw materials, tools and machinery, the availability of cheap, experienced and skilled type of labour and the development in the means of transport. The internal economies are peculiar to a firm and independent of the general progress of the industry; they depend solely upon the internal management and the efficiency of organization of the firm in question. All the advantages due to better division of labour and greater specialisation of machinery, utilisation of by-products, more economical use of the power and raw materials, impressive and economical advertisement giving special opportunities to customers and the skilful organisation of the whole business, pass by the name of internal economies and which incidentally counteract the tendency of diminishing returns.

Here we must dispel the common understanding found among the students in connection with the applicability of these Laws. Although the Law of Diminishing Returns generally applies to agriculture and that of Increasing Returns to manufactures, yet it can hardly be affirmed that there are two distinct Laws each of them applying to one particular type of industry. Increasing or diminishing returns tend to show more or less productivity in proportion to increased labour and capital. Diminishing returns prevail in every sphere of human activity with this difference only that its operation in manufactures owing to the skilful organisation, management and supervision of the business, better utilisation of the natural sources, standardisation of varying factors and economical concentration of productive processes, can be deferred for a long time. That is to say, in manufacturing industries, increasing returns on account of these favourable conditions are more assured and frequent than in agriculture or other extractive industries, but if the scale of business is carried too far, where management is liable to suffer in efficiency and economy, diminishing returns must prevail ultimately even in manufacturing industries.

The Law of Constant Returns

Under the Law of Constant Returns, the additional output is obtained, neither more nor less but just in proportion to the successive doses of labour and capital. When man's ingenuity and nature's niggardliness reach a point of equilibrium, we have the Law of Constant Returns. The cost per unit remains the same whether or not the business is carried on a small or large scale.

The Law of Constant Returns is of a very limited application; it generally operates in those industries where the opposite tendencies of diminishing returns and increasing returns reach a point of equilibrium to yield constant returns. For instance, in turning the wheat into flour or wool into blankets, the advantages of additional application of labour and capital may be neutralised by the increasing cost of raw materials (produced under the operation of the Law of Diminishing Returns). Again, in a steel industry, if the raw material utilised is of those mines which are subject to diminishing returns, and if the iron ore thus obtained is manufactured into steel goods under the influence of increasing returns, in such a case, the industry in the production of steel will yield constant returns, that is to say the cost of production per unit of steel turned out by the industry will neither increase nor decrease but will remain stationary.

DIAGRAMMATIC REPRESENTATION OF THE LAWS OF RETURNS

In the following diagrams the axis OX represents the unit of output and OY measures the cost per unit of output.

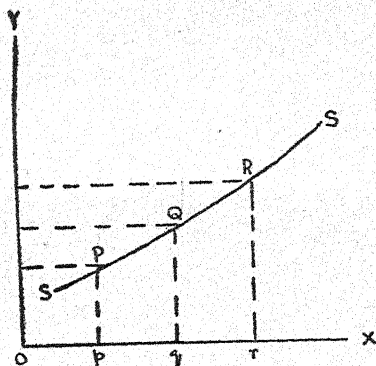
*Law of
Returns
Constant*

Diminishing Returns

or

Increasing Costs.

The cost increases as the production increases from Op to Oq to Or .

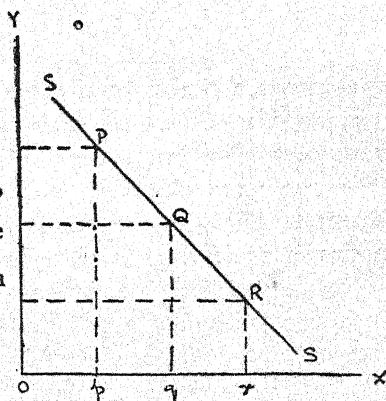


Increasing Returns

or

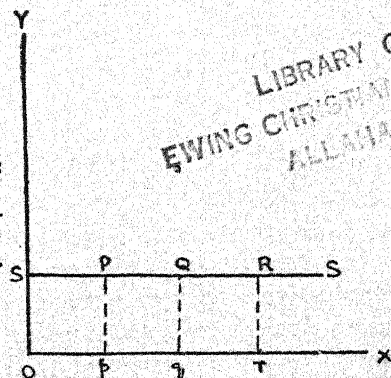
Diminishing Costs.

The cost diminishes as the production increases from Op to Oq to Or .



Constant Returns.

The cost remains the same as the quantity produced increases from Op to Oq to Or .



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CHAPTER XIV

EXCHANGE

The Meaning and Necessity of Exchange

In the most primitive societies, when members of each family produced independently the entire wealth for the satisfaction of their limited wants, there was practically no necessity of exchange. But in a modern industrial society in which productive activities are carried on indirectly through a minute and intricate system of division of labour and large scale production, the subject of exchange has come to occupy a very important place in our economic studies. It is a necessary link connecting the chain of production and consumption. Exchange implies the transfer of goods among the members composing a society. In Economics, under the department of exchange we study the voluntary two-sided transfer of goods, the ratios at which goods change hands, and the mechanisms and institutions by which this arrangement is brought about. If Mahendra is willing to part with his watch in consideration for Pratap's tennis racket and Pratap is also prepared to part with his tennis racket, in order to obtain Mahendra's watch, an exchange between the two can take place. Thus, in an act of exchange there are two parties each of which after comparing the utility that would be lost on parting with a commodity and the satisfaction that would be derived on receiving another's commodity, voluntarily exchange goods for those of another.

The need for exchange arises out of the division of labour. Every producer now-a-days specialises himself in that branch of productive activity in which he finds himself comparatively most efficient and depends for the satisfaction of his various wants upon the system of exchange. As a rule, every person

now parts with that amount of commodity or service of which he has a surplus and obtains by exchange that of which he feels a shortage. In the absence of exchange everybody would have been obliged to produce all those things required by him with his own hands. It would have involved indescribable difficulties besides an enormous amount of wastage of time and resources. It is by means of exchange that the economic cycle of efforts and their satisfaction is made complete. Exchange has assumed such a growing importance that nearly all the wealth that is created is produced in order to be exchanged.

Advantages of Exchange

1. Exchange enables people and countries to utilise their natural resources to the best advantage. Each country specialises in the production of that commodity for which it is best fitted. This increases the National Wealth of the country.

2. Each man adopts that occupation for himself for which he has got the necessary inclination and aptitude. This increases the productive capacity of each individual worker.

3. It enables each country to dispose of its surplus products which would have been useless otherwise. At the time of calamities or wars or famines, we can easily depend upon the products of other nations.

4. Exchange enlarges the area of markets, increases the scale of production, and brings about many other improvements in machinery and methods of production.

5. We are enabled to get through exchange many commodities which we would not have consumed otherwise.

The Forms of Exchange

There are two forms of exchange, viz.,

✓ I. Exchange by Barter.

II. Exchange by Sale and Purchase.

✓ I. Barter

If the transference of goods takes place directly, that is,

by the direct exchange of commodity for commodity without the intervention of money, it is called *barter*. Even today, barter system of exchange is obtainable in those communities which are economically weak and commercially undeveloped. In many of the interior villages of India, payments to field labourers and village artisans are generally made in kind and not infrequently, a zamindar is seen exchanging his bullock directly for a horse of another without the intervention of money.

Inconveniences of Barter

As a result of the growth of division of labour and the consequent economic interdependence of persons for their mutual gratification of wants, the inconveniences attendant upon barter system of exchange began to prove a great clog in the progress of the community by obstructing the exchange of marketable articles freely and quickly. The main difficulties and inconveniences involved in exchange may be briefly summarised thus:—

(i) *Lack of double coincidence of wants*. The fundamental inconvenience of barter, as Prof. Chapman writes, arises from the fact that, for each act of barter, a double coincidence of wants is a prerequisite. By this expression we mean that before an exchange of goods can be effected directly, 'the man who has a superfluity of one thing and wants another, must find a second person whose superfluity and want are reciprocal to his own.' Thus, a farmer who has superfluous wheat and wants to exchange it for cloth, must not only search for a cloth dealer, but for such a cloth dealer who has the superfluous cloth and at the same time the willingness to have his wheat in exchange. This sort of search from door to door, before barter can take place, involves a tremendous amount of botheration and an incalculable loss of time. (2)

(ii) *The awkwardness of accommodating units of sales to units of purchases, or the difficulties of division and sub-division without loss of value*. The second important difficulty expe-

rienced in exchange by barter is that of accommodating units of sales to units of purchases. Supposing, a cultivator who has a surplus horse with him wants to get in exchange by the system of barter twenty yards of cloth, a *chersa* (a leathern bucket), four spades, eight sickles, two rough blankets, and a few other sundry articles, it seems well-nigh impossible for him to find out a person who can supply him all his requirements and accept in exchange his surplus horse. If he is not able to hit upon such a person, naturally he cannot be expected to part away with two legs and two ears of his horse in exchange for, say two blankets, as the value of the whole will be destroyed by thus chopping away a smaller portion from the complete unit. Thus, the difficulties of sub-division in exchange without loss are clearly manifest in a system of barter exchange.

(iii) *Want of a common denominator of value.* The third great difficulty arises from the fact that in a state of barter there is no provision for a common denominator of value by which we can measure and compare the values of the different goods to be exchanged. As every commodity, in the absence of a common medium of exchange, has got to be exchanged for a large number of commodities all differing in kinds and values, therefore, much difficulty is experienced in settling about the rate at which exchange of goods should take place; and even if we were to furnish a list indicating the value of each commodity in terms of nearly all other exchangeable commodities, it would form a most lengthy, complicated and an almost impracticable process. The result is that there is an endless higgling over the settlement of the bargain and consequent waste of time to the exchanging parties.

II. Sale and Purchase

These difficulties and drawbacks led to the introduction of money as a common medium of exchange and the division of one exchange transaction into two separate and distinct operations, called "sale and purchase." This system has facilitated exchange to a remarkable degree. By this method we are no

longer required to exchange goods for goods and put to any difficulty in the search of a man who can satisfy our diverse requirements. People now sell their articles and services for money and with it they purchase all the necessary articles required by them. The former of these exchange transactions is called *sale*, and the latter *purchase*. Thus, under the system of sale and purchase goods are transferred with the intervention of money and as such the value of commodities is now expressed in terms of money paid for them.

Both Parties Gain in Utility by Exchange

It must be emphasised at the outset that in an act of voluntary exchange there accrues a gain to both the parties, unless one party is abnormally weak or ignorant. In the following illustration, it will be shown how both parties tend to secure a gain in utility in an exchange transaction. Let us assume that two farmers one having a stock of rice and the other possessing a stock of sugar want to exchange some amount of their commodities between themselves. For the sake of brevity let us call them A and B respectively. Now A has a stock of rice but wants to have sugar; while B has sugar but wants to have rice. Before an exchange transaction takes place between the two, each will compare the degree of satisfaction to be derived from the quantity of a commodity to be gained and the satisfaction lost by parting with a certain quantity of a commodity. If the satisfaction expected to be derived from the incoming commodity is at least equal, or outweighs the satisfaction of the outgoing commodity, an act of exchange between the two may be effected. If after the usual process of bargaining, A consents to part with one maund of rice for one maund of sugar and B also agrees to exchange one maund of sugar for one maund of rice, it clearly shows that A expects to get at least equal or greater utility from one maund of sugar than from one maund of rice already in his possession, and B also expects to obtain at least equal or greater satisfaction on receiving one maund of rice from A than on keeping one maund of sugar

with him. Hence, there accrues a mutual gain in utility by exchange because by this process both parties get that commodity the utility of which to them is higher than that of the commodity which they give in exchange.

It used to be argued that in exchange if one party benefits, the other party must necessarily lose. This belief, however, is erroneous. In continuation of the previous illustration it may be repeated that A has a stock of rice and B that of sugar—in excess of their own requirements. In the absence of any exchange, if both of them were to continue the consumption of their own commodity, it is sure, according to the Law of Diminishing Utility, the utility of the successive units will go on continuously diminishing and the marginal utility may fall to zero, if the stock of the commodity happens to be too large. A has a surplus stock of rice and as such it will have smaller degrees of utility than sugar which he keenly desires to have. Side by side B has a surplus stock of sugar and as such it will have smaller degrees of utility than rice which he strongly wants to possess. Hence, the utility of one maund of sugar to A and of one maund of rice to B must be very high as in each case the incoming commodity satisfies a much stronger and more intense desire. By giving one maund of rice and receiving one maund of sugar, A loses less utility in the deprivation of rice than what he obtains in the acquisition of sugar. This applies equally to B as well. Thus, in view of the fact that a commodity having less utility is being exchanged for a commodity having a higher utility there is an accretion of utility to both the parties. Similarly, if the exchange transaction is carried on through the medium of money, the utility of the commodity purchased is at least equal if not greater than the utility of the money given. If that is not so, no exchange can take place. Jevons has, therefore, defined exchange as the "barter of the comparatively superfluous for the comparatively necessary."

The Meaning of Value and Price ✓

The term 'value' is used ordinarily in two different senses,

viz., (1) value in use, and (2) value in exchange.

'Value in use' expresses the utility or importance of some particular object. It is a subjective phenomenon and refers to the want-satisfying capacity of a commodity. When we say that iron is more valuable than gold or that the value of wheat is greater than that of diamonds, we mean, thereby, that iron and wheat are more useful and important as they satisfy more urgent wants than gold and diamonds. ✓

'Value in exchange' of a commodity means the power of its being exchanged for other commodities. In short, it means the quantity of other things that can be had in exchange for the thing offered at any given time and place. It is an objective phenomenon and refers to the rate at which the commodity exchanges for others. For instance, if two portable gramophones are exchanged for one portable Remington typewriter, we say that the value of two gramophones is one Remington typewriter and that of a Remington typewriter is two portable gramophones. Therefore, 'value in exchange' is a relative term and implies the relation between two commodities at a particular time and place. If a commodity can command in exchange for itself a large quantity of other things at a particular time and place, its value is high; if at any other time it secures in exchange only a smaller quantity of other things, its value is low.

In order to avoid ambiguity and confusion it is thought better by economists to restrict the use of the term value in the sense of 'value in exchange,' and to confine the use of the term 'value in use' in the sense of utility only. We now speak that air, water, sunshine and light have very great utility (or, value in use) because they are indispensable for human existence, but they have practically no value (or, value in exchange) because they are free gifts of nature and under ordinary circumstances can be obtained indefinitely without payment. Hence, if a thing possesses 'value in use' it does not necessarily follow that it must have 'value in exchange' as well. If a commodity is to have value, it must possess the essential elements of utility,

scarcity and transferability.

Here a distinction must be made between value and price. Value we have defined as the power possessed by a commodity in exchange to secure other articles. The value of a commodity when expressed in terms of money, is called its *price*. Marshall writes: "Civilised countries generally adopt gold or silver or both as money. Instead of expressing the values of lead and tin, and wood, and corn and other things in terms of one another, we express them in terms of money in the first instance, and call the value of each thing thus expressed its price." Therefore, price is the amount of money which a commodity will exchange for. If 20 seers of barley can be had in exchange for one rupee, then we say that the price of 20 seers of barley is one rupee. There may be a general rise or fall of prices as the purchasing power of money falls or increases; but there cannot be a general rise in values nor a general fall in values. If the value of a commodity has risen, that is, if it procures a greater quantity of other articles, it necessarily follows that the value of those other articles has fallen.

The Machinery of Exchange

In every civilised society there are some instrumentalities of exchange which have come to be regarded as essential for facilitating and furthering exchange. These may be mentioned as follows:—

1. Merchants and Traders including retail and wholesale dealers who bring consumers into a close contact with producers.
2. Means of transport and communication such as roads, railways, navigable rivers, telephone, telegraph and radio, etc., which enable a cheap and rapid transfer of commodities from a place of plenty to a place of scarcity.
3. Markets where the exchanging work is carried on.
4. Money which is designed to serve as a medium of exchange. The superstructure of banking and credit is also based upon the existence of money.

CHAPTER XV

MARKETS

The necessity for exchange and markets arises only when division of labour is introduced in the economic and industrial activities of a society and when each producer begins to engage himself in that special branch of productive activity in which he finds himself relatively efficient. Each producer now specialises in some particular calling and exchanges his products and services for the products and services of others through a common medium of value as accepted by the society. In modern times almost every producer produces for selling or marketing his produce. As a rule it may be affirmed that every effort directed towards the specialisation of production results in the creation of further opportunities for exchange and marketing. Hence, the exchange of commodities and the presence of markets where the exchanging business among a group of buyers and sellers is carried on, have come to be regarded as important features of our modern economic life.

Definition of a Market

In popular language, the word 'market' refers to a particular place, building or enclosure where sellers and buyers with several kinds of articles congregate for the purpose of sale and purchase. In Economics, however, the term market is not confined to any particular locality nor does it refer to any market place where all kinds of provisions and other goods are offered for sale and purchase, but it chiefly refers to a particular group of buyers and sellers of any commodity who compete so closely with one another that the price of that commodity tends to be the same throughout that region in which they are found to be scattered. Curnot defines a market thus: "Economists under-

stand by the term *market* not any particular market place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly." Or again as Jevons says: "Originally a market was a public place in a town where provisions and other objects were exposed for sale; but the word has been generalised, so as to mean anybody of persons who are in intimate business relations and carry on extensive transactions in any commodity. A great city may contain as many markets as there are important branches of trade and these markets may or may not be localised. The traders may be spread over a whole town, or a country, and yet make a market, if they are, by means of fairs, meetings, published price lists, the post-office or otherwise, in close communication with each other." Thus, in a perfect economic market, where competition among buyers and sellers is in full play, there is a strong tendency for the same price to be paid for the same article at the same time in all parts of it, allowing for the cost of transporting it from one part of the market to another.

The conception of an economic market would not be complete if it is not explained that even for the same commodity there may be as many markets as there are different groups of exchangers engaged in the sale and purchase of that commodity, independently of each other. Thus, in respect of a particular commodity in a particular region there may exist different markets for it. The retail market in a commodity such as tea is quite distinct from the wholesale market in the same commodity. Retail grocers compete directly in one market to purchase tea from the wholesalers; but this market is quite distinct from that wherein the wholesalers themselves compete to buy supplies from the actual producers.

The Evolution of Markets

The markets, in view of the expanding requirements of trade and commerce, have undergone various types of changes

and improvements. The various stages in the development of markets have been classified into four divisions.

1. *Localisation of markets.* At a particular market place, where buyers and sellers agree to meet for exchange transactions and where several kinds of goods are exhibited for sale, neither the sellers have to search for the buyers, nor the buyers have to make a troublesome search for the sellers. On account of a close association and keen competition among buyers and sellers, the price of an article tends to equality for the same article at the same time, because the buyers, beyond a particular price ruling at one time, would not be prepared to pay a higher price, and sellers would also not like to sell below that price unless they can afford to do so. The extent of a localised market usually depends upon the availability of transport facilities.

2. *Dealing by sample.* Before the introduction of the sale of goods by samples the sellers used to transport their goods to the market place in the expectation that some purchasers would come forward to demand their goods. Buyers used to come and settle prices, and if the prices arrived at through bargaining and higgling proved somewhat unfavourable to the sellers, they seldom took their goods back as they had already incurred the expenses of transportation. These and other inconveniences are removed when the system of selling goods by sample is substituted for the actual goods to be sold. The sample can be handled and carried much more easily, and goods can now be sold in a distant market without their actual transportation in bulk. By this means the expenses of transporting goods are reduced or eliminated, the area of the market is increased, and competition becomes keener and much more effective.

3. *Dealing by grade.* The system of marketing goods by grade was a further development in the growth of certain markets. There are certain commodities which can be conveniently classified according to their different qualities into several grades each differing in some respects from other grades. To each grade of a commodity is assigned a distinguishing mark

or name so that the prospective buyers, without actually examining the commodity or its samples, can purchase in distant markets by simply quoting the name or mark of the grade which they want. In the case of gradable commodities, like cotton, jute and wheat a resort to samples is rendered almost unnecessary. The introduction of selling by grade still further enlarges the area of the market and makes the market more perfect by making competition more effective within all parts of it.

4. *Differentiation or specialisation of markets.* Originally the market is a mixed market in which several kinds of goods are exhibited for sale and purchase. But with the expansion of industrial activities and commercial requirements and the development of transport facilities, the market tends to grow more specialised. It no longer remains a mixed market, but for the sake of commercial convenience and efficiency it is divided into specialised markets, such as the fruit and vegetable market, textile market, grain market, *sharaffa*, etc.

Classification of Markets'

Markets may be classified according to space or time and may be termed as Place Markets and Time Markets.

A place market refers to a region over which it extends. A time market refers to the duration of time taken by the forces of demand and supply to be completely adjusted.

Place Markets

A market in regard to area may be local, national or international. The area of competition governs the area of the market. If the competition in respect of a particular commodity is confined to the buyers and sellers of a particular locality, the market for that commodity is called a 'local market.' Generally, the market is local for that article which is perishable or bulky or which satisfies only an individual need or local requirement, e.g., vegetables, bricks and grass have a local market. Again, if the competition for a particular commodity is found among the buyers and sellers scattered over the entire country,

then that commodity has a 'national market.' An international market is that market in which the competition among the sellers and buyers for the sale and purchase of a commodity is world-wide. Such commodities as gold, silver, wheat, sugar, cotton, jute, iron, petroleum, etc., which are demanded all over the world have international markets.

Time Markets

"Markets vary with regard to the period of time which is allowed to the forces of demand and supply to bring themselves into equilibrium with one another." According to time markets may be classified as follows:—

(i) *The daily market.* In a daily market, the supply of a commodity is more or less fixed and cannot be changed in response to the changes in demand. The price in the daily market is fixed by the temporary equilibrium of demand and supply in which the demand plays an important part while supply remains a passive agent. As there is no time to increase or decrease the amount of supply to meet the increased or decreased demand, it is the utility of the commodity that fixes the prices of commodities.

(ii) *The short period market.* In the short period market, time is not sufficient to change the factors of production to meet the changes in demand. Supply during a short period is variable to a certain extent only with the help of the existing factors of production, e.g., if the demand for a commodity increases, the supply will tend to increase by utilising the less efficient existing factors of production and naturally the cost of production would tend to increase, and if there is a decrease in demand, only the most efficient factors of production will remain in service resulting in a lower cost of production per unit than before. Thus, we see that in a short period market, supply is not as passive and fixed as in a daily market but still the demand plays a predominant part and fixes the prices of commodities.

✓ (iii) *The long period market.* In such a market, all the

factors of production get sufficient time to adjust themselves to the changes in demand. Increased demand will be met by increasing the supply with the aid of the new factors of production while decreased demand is satisfied by decreasing the supply. In short, there is a complete adjustment of supply to demand in a long period market. Supply plays a more prominent part and prices tend to the level of the cost of production of the commodity. No producer would sell his commodity, below the cost price; he will close his business instead of doing so. Similarly, the prices of commodities cannot be higher than their cost of production, as this inducement of an extra gain will tend to increase the supply of those articles to bring the prices to the level of the cost of production. Hence prices, in the long run, cannot be permanently higher or lower than the cost of production.

Boundaries of a Market

Markets tend to grow wider in their extent with improvements in the means of transport and communication. Good roads, cheap railways, secure steamships, rapid air service, convenient telephony, telegraphy and radiography have all a noteworthy tendency to extend the boundaries of markets enabling the buyers and sellers, scattered over a wide region, to obtain reliable informations regarding the present and the prospective course of the market prices. Before the introduction of these devices, the transportation of goods from one place to another was very slow, expensive, inconvenient and risky, in consequence of which, markets for many of the commodities barring a few articles of luxury were confined to the locality of their origin. Formerly, marked variations in rates were noticed even in the adjoining localities because of the high cost of transport and lack of any specific information regarding prices. But at the present day, free competition among buyers and sellers, rapid and regular means of transport and communication have made it possible for the buyers and sellers to compete with one another for the same supplies and to bring about an equalisation

of prices of the same commodity in all the markets.

A second condition necessary in the extension of markets is the existence of confidence, peace and security in the country. If there is perfect security from fraud and burglary, if the claims of creditors are respectfully recognized by the authorities, then dealers would not hesitate to send their goods, in case it is profitable to do so, even to the very ends of the earth. Hence, Governmental security and commercial honesty and stability are important factors that tend to widen the markets.

It may also be referred here that the more sound a monetary system is evolved, and the more proper banking and credit facilities are available in the commercial world the greater will be the tendency towards the expansion of markets. Various means of advertisements, fairs, exhibitions and cinema shows are other factors that tend to enlarge the area of a market for a commodity.

Conditions of a Wide Market

Besides the above-mentioned factors that have a tendency towards widening the areas of markets, a commodity must itself possess some important qualities, before it can have a wide market for it. They may be enumerated as follows:—

1. *Universality of demand.* Generally, those commodities which are widely and regularly demanded by people living in different climes and countries can command a very wide market for them. Many Indian products such as wheat, cotton, jute, hides, etc., are universally demanded and there is an international market for them. Gold, silver, cotton, sugar, Government bonds and stocks and shares of well-known companies are other commodities which enjoy a world-wide market. *Dhoties* and *saries* are not articles of universal consumption, and as their demand is restricted to our country, the market for them is only a national market. The market for the articles produced by the village carpenter is a local market as the demand for them is confined to a few groups of villages only.

2. *Portability.* If a commodity is portable, that is, if the bulk or weight of the commodity is not very great then the commodity can have a wide market. Bulky and heavy commodities like straw, sand and ordinary bricks of relatively low value must have a narrow market, because if they are transferred from one place to another the price at the destination owing to the high cost of transport will become prohibitive. As a rule, market for such commodities is restricted to the neighbourhood of the place in which they are produced. On the contrary, the markets for gold and silver, stocks and shares, silk and tea are world-wide, because they are in universal demand, and secondly because they have a very high value in proportion to their bulk and weight. *

3. *Suitability for grading and sampling.* Those commodities which are cognizable and suitable for sampling and grading enjoy wide markets, as the purchasers without having any personal inspection of those commodities, can place orders in distant countries by quoting their distinguishing marks. As the grading is very frequently done by an independent expert authority, there are practically no possibilities of adulteration. Wheat, cotton, tea, jute and sugar are some of the important commodities which can be suitably classified and graded into separate classes as a result of which they can command very wide markets.

4. *Imperishability.* Perishable commodities like fresh fruits and vegetables, fish, milk and meat which cannot stand transportation over a long distance have a very narrow market. On the other hand, durable articles enjoy wide markets. For instance, the quality of barley and oilseeds will not undergo any deterioration, if it is kept for a long time and transported to distant countries. But it may be mentioned here that with the introduction of scientific packing, refrigerating vans and cold storage facilities the markets for perishable commodities are also growing wider and wider in their extent. It is due to the rapid means of transport and the scientific improvements introduced for the transit and storage of perishable commodities that

many of the commodities have now come to acquire world-wide markets which were only a few decades back confined to the locality of their origin.

5. *Supply of the commodity.* An article the supply of which is limited cannot expect to have a wide market. For a commodity to have a wide market, it is necessary that its supply must be large.

CHAPTER XVI

THEORIES OF VALUE

Having explained and emphasised the nature and the necessity of exchange and discussed the importance of markets, it now remains to be examined how commodities exchange hands and on what terms and conditions such an exchange ratio is determined. It may well be asked why a particular commodity is exchanged for a particular commodity, or for a given price and not for more or less price, and how an adjustment is brought about between the amount demanded and supplied in a market where every producer produces for sale irrespective of any previous arrangement or agreement with his fellow producers? Why do the ratios in which they exchange vary from time to time? These problems lead us to the consideration of the principles governing the exchange-power of a commodity or service. Since the time Economics began to be studied in a critical spirit, various important theories have been propounded to explain the determination of values and prices. But in order to understand clearly the modern theory of value, a brief review of the preceding theories seems expedient at this place.

The Labour Theory of Value

Although expounded originally by Adam Smith and Ricardo, yet the Labour Theory of Value is generally associated with the name of Karl Marx, the great socialist thinker, who undertook great many pains in its exposition and development. Adam Smith regarded labour as "the real measure of the exchangeable value of all commodities." He states: "Labour is the only universal as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places." Ricardo

held labour as "the foundation of all value, and the relative quantity of labour (applied to produce commodities) as almost exclusively determining the relative value of commodities;" while Karl Marx speaks that the "value of each commodity is determined by the quantity of labour expended on and materialized in it, by the working time necessary, under given social conditions, for its production." Briefly, the exponents of labour theory believe that value of anything is determined by the amount of labour that has been spent upon its production. Like Ricardo, Marx also recognized the presence of utility as absolutely essential to value, but due to its variability, he disregarded utility as a factor necessary in the determination of value.

The labour theory of value seems to be entirely untenable and impractical in its conclusions, on account of the defects reproduced below.

(i) If the amount of labour expended in the production of a commodity be regarded as the sole source and measure of its value, a very serious difficulty arises concerning the unit of labour that should be taken for purposes of measuring values. By what standard are we to measure and compare an hour's labour of an unskilled workman with an hour's labour of a clerk, the writer, the engineer, or the entrepreneur? Marx, in spite of his all ingenious arguments, could not give a satisfactory explanation of the standard by which various *grades* or *qualities* of labour should be evaluated and compared? The *qualitative* differences can hardly be reduced to *quantitative* differences.

(ii) It not only treats the problem of value from the side of supply ignoring altogether the vital factor of demand as a determinant of value, it also brushes aside the claims of all the factors of production except labour. Labour, we know, cannot produce anything without the co-operation of land and capital, and as the latter cannot be had freely, they must cost something to those who wish to harness their services.

(iii) If the value of a commodity is determined by the labour expended during its production, then why does the value show fluctuations from time to time after it has been produced

and placed in the market! Nor, it gives any explanation of the value of those commodities which, on account of their scarcity, bring high prices.

(iv) It does not explain the supposed "paradox of values," whereby things with relatively little usefulness may have high value in exchange and *vice versa*.

The Cost of Production Theory of Value

Like the labour theory, the cost of production theory regards the problem of value from the standpoint of supply alone. The theory states that the value of a commodity is determined by the cost of the various factors employed in its production. Besides labour, it emphasises and includes the services of other factors of production in the determination of values. Mill summarizes the theory in the following words: "The cost of production, together with the ordinary profit, may, therefore, be called the *necessary* price or value, of all things made by labour and Capital."

Obviously, this theory seems to be more precise and scientific in its exposition, as it states that under free competitive conditions, the price of an article must at least cover the cost of production if its production is to be continued. The high profits accruing from higher prices over cost tend to attract more competitors in consequence of which the supply gets increased and the prices tend to equal the cost; while the low profits tend to drive away the producers to more lucrative fields, bring about a shortage in the supply and a rise in the prices.

The cost theory, however, equally fails to provide a correct explanation of value and like the labour theory it is also subject to the following criticism.

(i) The cost theory treats the question of value from the side of supply only and ignores the side of demand or utility in the determination of value.

(ii) It does not furnish any allowance for misdirected application of the factors of production. How can a machine built at an enormous expense of labour and capital command a

value in the market, if it fails to move and work, or why the consumers should pay a high price for a particular commodity, if its cost of production is made unduly high owing to the negligence or bad economy of the producer?

(iii) If the value of a commodity is determined by its cost of production, then the theory offers no explanation for the value of those commodities which practically involve no cost of production. The price of such rare articles as famous pictures and statues and meteoric iron depends more on the demand of the consumers than on the cost of production.

(iv) The value of a commodity changes from time to time and from place to place. The cost of production theory does not explain why value changes after a thing has been produced and placed in the market for sale.

(v) The cost of production of a commodity varies from firm to firm and under free conditions of competitive forces one single price rules at a given time in a particular market. The cost theory fails to give a satisfactory explanation as to whose cost of production determines value though it is maintained by the exponents of the theory that the value depends on the cost of production of the marginal firm which just manages to carry on the production of the commodity.

The Utility Theory of Value

The utility theory of value, advocated by Jevons and the economists of the Austrian School, states that the value of a commodity is determined by utility or demand. It was considered by the exponents of this theory that the value of a commodity cannot go higher than the amount of utility to be derived from its consumption or acquisition, and if the value exceeds the prospective utility, the commodity would no longer be demanded as a result of which production would cease.

Like the labour or cost theory, the utility theory of value is one-sided, and is objected to on the following grounds:—

(i) It deals with the problem of value from the side of demand and overlooks the conditions of supply altogether.

(ii) If utility is the determining factor of values, the value of a particular commodity of the same quality and quantity should vary from individual to individual as each man according to his wealth and intensity of his desire possesses different utilities for the article. But under actual market conditions one single price rules at a time for the same article irrespective of the means and desires of the buyers.

(iii) According to the utility theory the value of those articles (e.g., food and drinks) which have comparatively high utilities should be high while the value of those articles (e.g., diamond, gold and silver) which satisfy relatively less urgent wants should be low. But in actual conditions of economic life the value of a commodity is very often inversely proportionate to its utility. This goes far to contradict the theory.

(iv) The theory in its modified form states that the value of a commodity depends on its final utility or marginal utility, i.e., the utility derived from the last unit of purchase. The price which a buyer is willing to pay for the marginal unit will be paid for all the units purchased by him at a given time. But marginal utility itself shows variability depending to a great extent on the price and the supply of a commodity. Hence, marginal utility by itself cannot govern the value of a commodity.

Demand and Supply Theory of Value

The demand and supply theory states that the exchange value of a commodity is determined by the interaction of the forces of demand for and supply of that commodity in a market. In order to bring out the salient characteristics of this statement, it would be good, if we explain it by the aid of a concrete illustration.

In every exchange transaction of a commodity there are two parties—a group of buyers and a group of sellers—each of which exercises a positive influence in the determination of value. On the demand side, the price of a commodity is determined by the utility to the purchaser, and if he is a sensible man he

would, under ordinary conditions, in no case like to part with an amount of money the utility of which is greater to him than that he expects to derive from the acquisition of the units of a commodity. But the desire to obtain the commodity depends on its marginal utility, and, therefore, the demand price is measured by the marginal utility of the commodity to the buyer. If the marginal utility of the commodity falls below the marginal utility of money which he has to pay for in exchange, he will cease to buy it. For instance, a buyer contemplates to buy 15 oranges. All the oranges being identical and interchangeable the price which he consents to pay for the fifteenth orange—the marginal purchase—would be the price for each of the entire stock of the oranges which he agrees to buy at that particular time. If the utility of the marginal purchase is just measured by one anna and, if he is the only buyer in the market, then one anna will be paid for all the successive oranges purchased. It is not the total satisfaction but the marginal satisfaction that determines the marginal demand price. Therefore, the *maximum* price of the buyer is determined in relation to the marginal utility to him of the commodity beyond which he would not like to go in for it.

On the supply side, there are sellers engaged in the production and supply of the commodity, which naturally entails some sacrifices and expenses on the part of producers. The sellers would not like to part with their commodity below the amount it has cost them to produce or acquire. Hence, the cost of production or the money value of the sacrifices they have undertaken in producing and bringing the article to the market, fixes the *minimum* price below which they would cease to sell as any price lower than that would not remunerate them. Supposing the expenses of production to the orange-seller come to 3 pice per orange, then this sum will form the minimum price below which he will never prefer to sell.

Thus, the buyer has a maximum price beyond which he will never go, but he will try to pay as little as possible. The seller has a minimum price governed by the expenses of production

of the commodity meant for sale but he will attempt to charge as high a price as possible. The actual price ruling in the market, at any particular time, will be determined by the relative urgency of the seller to sell and the buyer to buy together with the relative bargaining capacity of each party. If the buyer's demand is urgent and if he does not prove to be very skilful in the art of bargaining, it is quite possible he might be made to pay the maximum price, i.e., four pice per orange. If, on the contrary, the seller is in urgent need of disposing of his oranges and his impatience to sell his product is also realized by the buyer, it is possible he may, by his outward indifference, drag the price down to the seller's minimum, i.e., three pice per orange. Marshall observes aptly: "The price may be tossed hither and thither like a shuttle cock, as one side or the other gets the better in the higgling and bargaining of the market."

The above statement of the demand and supply theory of value, though simple and free from the complicated factors that we are to consider later on, is none the less quite true in essentials. In a market, where there is a heterogeneous group of buyers and sellers, the former having different tastes and means, and the latter having varying expenses of production owing to differences in their natural endowments and managerial accomplishments, the value of a commodity, on the demand side, tends to be determined by the marginal demand price of the marginal buyer, and on the supply side by the marginal supply price or marginal expenses of production of the marginal firm working under the most disadvantageous conditions, but whose contribution to the total supply is necessary to make the supply equal to the quantity demanded at any time. But it must also be pointed out that demand, supply and price act and react upon one another. Demand and supply are themselves affected by price. A rise in the price of a commodity tends to increase its supply and diminish its demand; on the contrary, a fall in price tends to decrease its supply and increase its demand. So the value of a commodity is determined at a point where the quantity demanded by the marginal buyers is approximately equal to the quantity

offered by the marginal sellers.

Equilibrium of Demand and Supply: Market Price

By 'equilibrium of demand and supply' is understood that state of the market, at any given time and place, when, through the competition of buyers and sellers, the price settles at a point at which the quantity demanded approximately equals the quantity offered for sale, and the exchange transactions take place between the two parties freely. Under such a state, the price at which transactions are carried on is called the market or equilibrium price and the quantity offered for sale and demanded at that price is called the equilibrium amount.

We have explained, elsewhere, the meaning of demand as an 'effective desire' of a commodity backed by the purchasing ability and willingness to use it. We also pointed, therein, how according to the law of demand, the quantity demanded tends to increase with a fall in price, and tends to decrease with a rise in price, other things remaining the same.

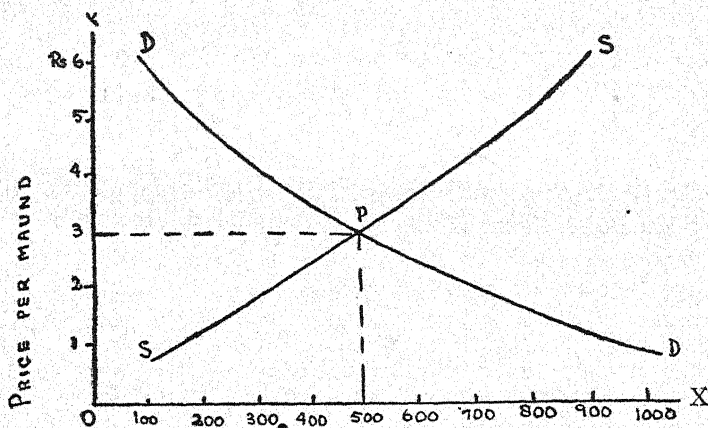
By "supply" in Economics is meant the quantity of a commodity offered for sale in the market at a certain price and at any given time. Hence, *supply* has to be distinguished from *stock*. Stock refers to the total amount of a commodity available at any time while supply denotes the actual amount of a commodity forthcoming for sale at a given price. On seeing an unfavourable price, sellers usually keep back their stock in order to sell it at a favourable price. In the case of perishable goods like fish, green vegetables, etc., the stock and supply tend to approximate, because such commodities owing to their perishability cannot be withheld by the sellers for a long time. The law of supply states that with a fall in the price, other things remaining the same, the quantity of a commodity supplied diminishes while with a rise in its price its quantity offered at that price increases because even those producers who have produced their stock at a higher cost are enabled to place it on the market. As the price of a commodity falls, its supply diminishes for many of the sellers who were on the margin find it now unremunera-

tive to sell at that price. A supply schedule, like the demand schedule, is a list of the varying quantities of a commodity that are offered for sale at different prices at any particular time and place.

Having explained the meaning of demand and supply and having determined their inter-relationship with the variations in prices, let us now seek to analyse the conditions under which the market price is fixed and an equilibrium is brought about in the market. Let us assume the case of wheat in a local market where buyers and sellers are found competing in its purchase and sale. Each buyer comes to purchase according to his individual demand schedule, and so each seller comes to sell according to his individual supply schedule. Each buyer has his own maximum price but seeks every opportunity to pay as little as possible. Similarly, each seller has his minimum price below which he will not sell his wheat but welcomes every opportunity in the way of securing higher prices than that. At different prices, different quantities of wheat would be demanded and supplied. Let us assume the following hypothetical market schedules of demand and supply on a particular day.

Buyers willing to buy. (Demand)	At the price. (Per maund)	Sellers willing to sell. (Supply)
100 Mds.	Rs. 6	900 Mds.
200 „	„ 5	800 „
300 „	„ 4	650 „
500 „	„ 3	500 „
725 „	„ 2	325 „
1000 „	„ 1	150 „

The above demand and supply schedules may be graphically represented by demand and supply curves and the point of intersection will determine the point of equilibrium and the market price at that particular time.



MAUNDS OF WHEAT SUPPLIED OR DEMANDED

Determination of Market Price

In the diagram given above DD represents the demand curve, and SS the supply curve. On reading it, it will be obvious to the readers that it is at the point P that the supply and demand curves intersect each other, and that the quantity forthcoming for sale is just equal to the quantity demanded. That is, the market price settled through the interaction of the forces of demand and supply for the time being is Rs. 3 per maund. That at no other point there is any equilibrium of demand and supply at that particular moment proves the non-existence of any other price. It is not necessary that all exchange transactions that take place on that particular day in the market are effected at this particular price. It is possible that some eager buyers might have purchased at a higher price while some eager sellers might have sold at a lower price than the market price but eventually, through the competition of buyers and sellers, the price is so adjusted that the quantity demanded equals the quantity offered at that price.

Thus, it has been truly observed that the 'market price is the price ruling in the market at any moment, and represents an equilibrium between demand and supply.' It varies from

day to day and in some cases from hour to hour according to the changes in demand for and supply of a commodity. Market price is a very short period phenomenon, and as the supply is more or less fixed on a particular day and cannot increase or decrease in response to a rise or fall in demand, it is determined solely with reference to the demand or marginal utility of the buyers for the commodity. If demand rises, prices also rise; while if demand falls, the prices also fall. In the case of perishable commodities, the influence of demand in the determination of market prices is most prominent. The supply plays a passive part in the determination of market prices.

Normal Price

In our discussion of the market price, it was pointed out that it is determined solely with reference to demand and has no direct relation to the expenses of production. Market price is governed by the temporary relations of demand for and supply of a commodity at any given time. Normal price, on the contrary, refers to the price during some period of time—a short or a long period—which covers the expenses of production of the marginal supply of the aggregate production during that particular period. By expenses of production is meant the sums of money paid for the 'efforts and sacrifices' that are necessary to the production of a commodity, that is, for meeting the expenses of raw materials, depreciation of fixed capital, interest and insurance on all capital, wages of all kinds of labour, and earnings of management. The normal supply price in any period, under free competition, must cover the expenses of production of the marginal firm whose supply on the market is necessary to make it equal to the quantity demanded. But in our dynamic society in which every factor—demand, supply, population, standard of living, methods of production, etc.,—is ever changing, there is hardly realized a perfect equilibrium between the conditions of supply and demand, and hence, the normal price is reached only temporarily. If the economic conditions are static, that is, if demand is not disturbed by the changes in fashions, tastes and

incomes of buyers, and if the marginal expenses of production or the supply are not being affected by such factors as new inventions and improvements in the methods of production, fresh accumulation of capital, improved means of transport and communication, etc., then the normal price tends to equal the marginal expenses of production. If the price is above the normal costs of the agents of production employed in producing a commodity, more producers will enter into competition putting forth an excessive supply on the market relatively to the demand thus, dragging the price downwards to the normal price. Conversely, if the price falls below the expenses of production the supply will be shortened, and the price will rise again. Normal price of a commodity is the pivot around which its market price oscillates.

The distinction drawn formerly between the market price as corresponding to the "short period" and the normal price as referring to the "long period" is no longer accepted as a scientific conclusion. In fact, normal supply price exists both in the short and long period markets, and variations in normal prices take place in the long run, in accordance with the laws of productivity. Marshall states: "The normal or natural value of a commodity is that which the economic forces tend to bring about *in the long run*. It is the value which the economic forces would bring about if the general conditions of life were stationary for a run of time long enough to enable them all to work out their effect."

Short and Long Periods

The terms short and long periods are very elastic, and are used in relation to the commodity under consideration. What may be regarded as a short period for one commodity may be taken as a long period for another commodity. A short period is that period in which no sufficient time is available to increase or decrease the factors of production in response to a rise or fall in demand. For example, the supply in a short period in response to a rise in demand cannot be increased with the

existing factors of production so as to meet the demand fully. In a short period the supply will be adjusted by bringing into use the obsolete and discarded machinery, and by working more intensively on the existing plant with unskilled labour with the result that the cost per unit will rise. But the short period normal price has a marked tendency to equal the expenses of production under abnormal conditions.

A long period, however, denotes a sufficient time in which the factors of production can be increased or decreased in response to a rise or fall in demand. In the long period the price of a commodity is influenced not by the expenses of production determined by the existing appliances of production, but by the expenses of producing specialized skill and ability, suitable machinery and other material capital required for producing the commodity. In long periods the economic forces of demand and supply get sufficient time and opportunity to adjust themselves more thoroughly.

The Short Period Price

The short period normal price refers to the price which covers the cost of the marginal supply during the short period. As the existing factors of production cannot be varied and fully adjusted due to the changes in demand and price during a short period, demand tends to exert a greater influence on the determination of the price of a commodity while supply plays no more than an indirect part in the determination of price.

If the demand for a commodity increases leading to a rise in price, producers, in order to take advantage of the high price, will increase its supply to some extent by manipulating the existing factors of production, but as the increased supply is obtained at a higher cost per unit due to the abnormal conditions of production, the normal supply price will tend to increase than before the rise in demand took place. Other things being equal, an increased demand increases the supply in the market and raises the normal supply price in the short period.

On the other hand, if the demand for a commodity dimi-

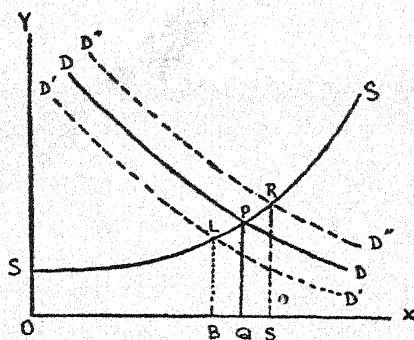
nishes during the short period, the supply will have to be curtailed by keeping a portion of the factors of production idle but without transferring the existing surplus factors of production to other more profitable productive enterprises. Moreover, it takes also some time to reduce the scale of production. Prices will tend to fall because the existing factors of production cannot be given a full employment and supply cannot be adjusted to the new conditions of demand in a short period. Hence, it may be concluded that a decrease in the quantity demanded leads to a fall in the price during the short period. The extent of the fall in the price depends on the nature of the commodity. If the article is of a perishable nature the fall in the price may be very rapid while if the article is storable the fall may be only a slight one. Although the influence of demand in the determination of the short period normal prices is very dominant, yet the influence of supply is no less prominent for the producers tend to adjust their supply to the demand as best as they can with the available appliances of production.

The Long Period Price

During long periods in which the factors of production can be increased or decreased in response to an increase or a decrease in demand, the normal price tends to equal the expenses of production of the marginal supply. Normal price in the long periods is the result of more stable conditions and permanent causes, as the adjustment of supply to the changed conditions of demand can be effected much more completely and efficiently. *The rise or fall of normal prices during long periods depends upon the changed conditions of supply and the laws of productivity.*

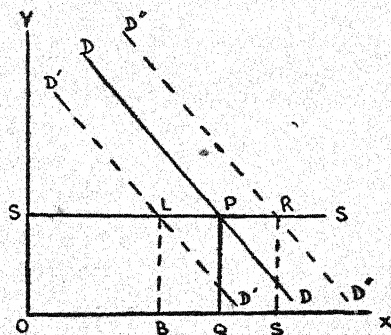
If a commodity is produced under conditions of increasing costs (or, diminishing returns), the cost per unit of supply increases. The long period normal price will rise with an increase in demand and fall with a decrease in demand. When the demand rises (represented by the $D'D''$ curve) from OQ to OS the normal price rises from PQ to RS . Again, when the demand falls (represented by the $D'D'$ curve), a diminished

amount of supply will be obtained at a less cost per unit, and the normal price will fall from PQ to LB , which is smaller than the old price.



Normal price under increasing costs

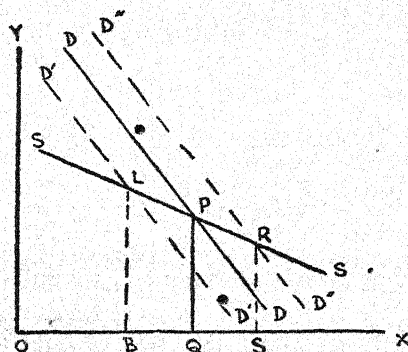
If the production of the commodity is subject to the Law of Constant costs (or, constant returns) an increase or decrease in the supply will not affect the price, as each successive unit



Normal price under constant costs

can be had at the same cost. In case there be a rise or fall in demand the price will be RS and LB respectively which is equal to the old price PQ .

Let us now examine the normal price of a commodity subject to the Law of Decreasing Costs (or, increasing returns). As the quantity demanded increases, increased supply can be obtained at a less cost per unit of production through economies accruing from large scale production, suitable business organisation, and better industrial management. Hence, a rise in the demand for a commodity, subject to decreasing costs, leads to a fall in price during long periods. The normal price will be



Normal price under decreasing costs

determined by the marginal firm whose output is required to meet the supply. While if the demand falls, the price rises as the smaller quantity of production is obtained by the producers at a higher cost per unit. $D''D''$ curve represents an increase in demand and the normal price RS is lower than the normal equilibrium price PQ . $D'D'$ represents a fall in demand, and LB measures the normal price in the long period which is higher than the normal equilibrium price PQ .

We may now summarize the influence of an increase or decrease in demand during short or long periods when the commodity obeys either diminishing returns, or constant returns, or increasing returns.

Nature of demand	Short period			Long period		
	D. R.	C. R.	I. R.	D. R.	C. R.	I. R.
Increase in demand	High	High	High	High	Constant	Low
Decrease in demand	Low	Low	Low	Low	Constant	High

Prof. Marshall sums up the theory of value in the following statement: "*As a general rule, the shorter the period which we are considering, the greater must be the share of our attention which is given to the influence of demand on value; and the longer the period, the more important will be the influence of cost of production on value. For the influence of changes in cost of production takes as a rule a longer time to work itself out than does the influence of changes in demand.*"

CHAPTER XVII

MONEY

The Evolution of Money

- ✓ The obvious difficulties and inconveniences involved in the barter system of exchange namely, the want of coincidence, the want of a measure of value and the want of means of subdivision, became manifest even in the most primitive economy, and at an early stage of civilisation the community, in order to obviate all those difficulties, was forced upon to select by an express or tacit consent a commodity to serve as a basis for the measurement of values of various articles. In a community, where wants of the people are limited, division of labour is conspicuous by its absence, and everybody produces with a view to satisfy his personal wants, the use of money does not arise. However, with the development of trade, commerce and industry, money came into use on a wider and larger scale. The selection of a third commodity, serving as a medium in every exchange and accepted freely by each person in the belief that what he accepts in exchange will also be accepted by other persons, dispenses with the difficulties which one has to encounter in bringing about the double coincidence of wants in barter. And it is this commodity, acting as a medium of exchange in payment for goods and services in a community, which is usually known as 'money.' Any commodity, may be called 'money,' provided it is made to serve the functions of a common medium of exchange. Suppose by a common understanding wheat is selected as the common medium of exchange in a particular community. Under such circumstance, it signifies that wheat is no longer required for appeasing hunger alone but it becomes, as Walker aptly remarks, 'an intermediate thing in the commerce

between producers and the consumers of any and of every article.' The general acceptability of wheat begins to facilitate exchange transactions to the great progress of the society at large. The cultivator who has a surplus bullock to sell and wants in its stead cloth need not fritter away his energies in finding out the cloth dealer who requires his bullock and is ready to part with cloth in exchange, as he would have been obliged to do so under a barter economy, but he directly sells his bullock in the market in exchange for wheat by which he can purchase any other commodity he stands in need of. Thus, wheat becomes the general medium of exchange and in such a community wheat may be called money because the owner of wheat can realize its value in terms of other commodities which he wants for his satisfaction at any time.

Therefore, general acceptability determined the use of a commodity as money in a community. That one thing which was considered to be suitable, convenient and valuable at a particular time was adopted as a medium of exchange or money. At different stages of the economic development, different commodities either of a familiar use, or of an ornamental character have been used as money, e.g., skins and furs in the hunting stage, cattle in the pastoral stage, food-grains in the agricultural stage, and metals in the advanced economic stage. Articles of personal adornment like the wampum beads also served as a medium of exchange among Red Indians at the time when early colonists migrated to America. Tobacco leaf, packages of tea, dried coloured calico, cacao, cowrie-shells, etc., have been used as instruments of exchange in different stages and places in conformity with the mode of economic life maintained by their inhabitants. However, as society made progress in the sphere of trade, commerce and industry, these primitive forms of money proved inconvenient and were discarded for one reason or another—some were bulky and indivisible, whilst others proved perishable and unsuitable for storing value. In course of time precious metals notably gold and silver due to their better qualities came to be regarded as the most efficacious media

of exchange and, in fact, in all the civilized communities of the world these money metals have been accepted as money.

✓ Characteristics of a Good Commodity Money

Many forms of commodities used as money at one time or another were discarded because they were found wanting in certain essential characteristics which ought to be possessed by a money-commodity. In order that a commodity may effectively be used as money, it must possess the following characteristics.

1. *Utility.* A commodity must possess utility and value in exchange independent of its money use, so that it may have general acceptability. Gold and silver satisfy this condition, for apart from their monetary use, they are universally prized owing to their usefulness and relative scarcity. In some respects it is the most fundamental attribute of a money-commodity.

2. *Portability.* In order that money may facilitate exchange transactions, a money-commodity must be such as may be carried from one place to another easily and cheaply. In other words, it must have great value in small bulk. Gold and silver can be transported from one place to the other corner of the world at a very low cost in relation to their value.

3. *Durability.* The commodity should not only be durable but storable as well in order that it may effectively serve as a means of transference of value from one place to another and from time to time. If it is perishable and loses its quality or size through circulation or hoarding, it cannot serve as a common means of exchange. Gold and silver in their pure form do not last for a long time, but when mixed with alloy they imbibe the essential attribute of durability or indestructibility.

4. *Cognisability.* The commodity selected as the money-material must be capable of being quickly and easily recognised so that the chances of defraud or counterfeiting may be reduced to a minimum. Easy and quick cognisability forms an essential attribute of a sound monetary system.

5. *Homogeneity.* This quality implies that the physical

divisions of the money-metal must be consistent and uniform throughout. Sheep, horses, skins or furs lack homogeneity as they cannot be divided into separate parts in such a way that each part possesses a uniform value. Gold and silver have a homogeneous composition, hence they are suitable for the purposes of money.

6. *Divisibility.* There are many articles which lose their value if they are divided into different parts. But gold and silver are composed of such a constitution that they do not lose their value on division into any number of parts and their different parts can be re-united without losing their original value. Precious stones lose their value when they are broken into separate parts and this is why they cannot serve as money.

7. *Malleability.* A commodity serving as money must be malleable and ductile, i.e., it must be capable of being melted down, beaten and drawn out into desirable and convenient shapes, and imprinted with suitable designs. Gold and silver satisfy this condition in a high degree.

8. *Stability of value.* The commodity must possess a stable value if it is to serve as money, for any rapid rise or fall in its value will bring about a corresponding change in the values of other commodities. Recurring fluctuations in the value of money prove invariably injurious to some groups of persons in a community, and a source of hindrance in the way of commercial and industrial progress. Therefore, in the interests of a sound monetary system the value of money-commodity should show variations from time to time or from place to place as little as possible. That is to say, the purchasing power of money should remain fairly stable though perfect stability is an impossibility. Among the metals, gold and silver, specially the former one has shown greater stability and steadiness in value because of the comparatively small annual supply, the existence of a large stock and a universal demand for it.

As all the above-mentioned characteristics are found in gold and silver to the highest degree possible, they have been

universally accepted as money-metals to discharge the functions of money.

✓ Functions of Money

From the inconveniences of barter, it is not difficult to form an idea of the functions of an intermediate commodity, commonly called money. Money, it must be understood, is not valued for its own sake but because its owner can claim on the goods and services of others in the community to the extent of his possession. Money, or different forms of it, today has come to serve as noted below:—

1. *Medium of exchange.* Easily it is the most important function of money as it removes all the unsatisfactory conditions involved in barter and brings about transference of goods and services with utmost convenience, rapidity and economy. It is in terms of money units that the values of other commodities are expressed. It has been truly observed that the present complex economic structure founded upon division of labour could not have achieved modern heights in the absence of efficient services of the labour-saving device of money. It is a general circulating medium of exchange and is accepted freely by everybody because every one, accepting it in exchange of his goods and services, is fully confident of getting, thereby, the desired commodities he wants to consume at any time.

2. *Measure of value.* As every commodity is exchanged in terms of money, it becomes automatically a basis for the measurement and comparison of values of all goods and services exchanged in terms of a common medium. Instead of saying that a certain person's wealth consists of so many different kinds of goods and services, his wealth is now measured in terms of money. The expression of value of an article in terms of other articles is made possible by the intervention of money, e.g., if ten seers of wheat are exchanged for one rupee and five seers of rice are also worth one rupee, then the ratio of exchange between wheat and rice is easily determined.

3. *Standard of deferred payments.* In a community

loans are contracted for a variety of purposes and the repayment is generally made at a future date. If at the time of repayment, the purchasing power of money differs considerably from that possessed by it at the time of advancing the loan, then some injustice would be done to either of the party concerned in the contract. In the selection of money-commodity, therefore, it is very necessary, that its value should show the least variations though absolute stability in the value of money is not possible. But as all debts are incurred or repaid in money, it incidentally comes to serve as a standard of deferred payments.

4. *Store of value.* Money can be stored much more conveniently and safely than many other kinds of goods. Firstly, the storing of money does not require any large space nor does it suffer any change if kept for any length of time. Moreover, as money commands a universal acceptability and as its value fluctuates within very narrow margins, it can be converted by the holder, at any given time, into different forms of wealth for the satisfaction of one's wants. Formerly, money was hoarded but it is now generally deposited in banks, etc. From this point of view as well, it is necessary that the value of money should not be subject to heavy fluctuations, otherwise it will fail to act as a store of value.

Definition of Money

Like other terms in Economics, the term 'money' is also defined in a variety of ways. In view of the conflicting opinions expressed by different writers as to the nature and services of money, it seems somewhat difficult to frame a suitable definition of money.

Some writers have defined it in a very narrow sense while others have interpreted it in a much wider sense. In the former case, they understand by money as metallic money which has got an intrinsic value apart from its money use and exclude all paper money because it is devoid of any intrinsic value. In the latter case, they include all media of exchange—metallic money, paper money, cheques, bills of exchange, bank drafts and other

negotiable securities. But this definition is too inclusive because it includes even those media of exchange which lack the quality of general acceptability and which are mostly acceptable in payment of goods or in discharge of debts among those parties which enjoy the confidence of each other, e.g., cheques and bills of exchange. Certainly, the important function of money is to act as a medium of exchange but it does not necessarily follow from it that all media of exchange are money.

Imp. But the more moderate and common opinion implies by money as all media of exchange which are generally acceptable in full payment of goods or in discharge of debts, and which pass freely from hand to hand as media of exchange. Prof. Kinley restricts the term money to that part of the medium of exchange which passes freely in exchange and settlement of debts, without making the discharge of obligations contingent on the action of a third party or on the action of the payer by promising redemption if the money article does not pass.

✓ The term money has to be distinguished from the term currency. The latter implies only those kinds of money which are issued by the State and which are used and accepted as a means of exchange only because their circulation is enforced by a legal authority. Thus, the currency system of a country is composed of all the different kinds of coins and papers with their relative values fixed by legal enactments. The Indian currency system is composed of metallic rupees, Government notes of various denominations, eight, four, two and one anna coins, and pice, half-pice and pie (one-third of a pice). They are accepted by people in discharge of obligations because they know that others will also accept them in payment without any hitch.

Coinage

Imp. Prof. Kinley has defined coinage as the 'stamping of a piece of metal for use as money so as to make known its denomination and value directly, or by indicating its weight and fineness.' The manufacture of coins is done exclusively by the State which guarantees the weight and fineness of the coin issued from its

mint and the designs stamped upon its surface enable people to realise its value.

In the earlier stages, gold and silver came to be used as rough ingots which had to be 'weighed and assayed' each time an exchange was effected. This double process of weighing and testing the purity of the metal resulted in a great inconvenience and an unnecessary delay of exchanges. Slowly, the rough ingots, after undergoing many evolutionary changes, came to be replaced by pieces of metal being impressed on one or both the sides with some official stamp or seal as indicating the weight and fineness of the metal. But due to the malpractices of 'forgers and clippers or cutters of coins' the uniformity of coins was spoiled as a result of which exchangers were again deceived and put to a lot of difficulty in examining their bulk and purity. Eventually, in every civilised State the Government took the exclusive responsibility of manufacturing coins and there are some positive advantages in keeping the coinage an exclusive monopoly of the State. The art of coinage has reached to such a stage of perfection that there are very few possibilities left for clipping or abrasion. The process of milling the edges has checked any tampering with the coin and that of putting a rim around a coin somewhat above the surface of the metal has imparted the desired durability. The Government issues coins from its mint with its own mark guaranteeing and certifying weight and fineness, value and denomination of the coin which is accepted by its people without any doubt in discharge of their claims.

Free and Limited Coinage

✓ Although it has become one of the most important and responsible functions of the State to manufacture coins, yet the arrangements under which coinage is done differ from country to country according to conditions determined by its economic possibilities and historical traditions. A country may have either free coinage or limited coinage. If in a country mints are 'open' to public, that is, if people are allowed full freedom to

right of coinage rests solely in the hands of the Government and a considerable profit is made by the treasury by manufacturing such coins but it seldom issues them in excess of the economic requirements of the country. Finally, token coins are limited legal tender, i.e., they can be paid by debtors in discharge of debts only to a limited extent. For example, token coins in England are limited legal tender for forty shillings. In India the four anna, two anna and one anna pieces are declared legal tender up to the amount of ten rupees, that is, a creditor has the right to refuse the acceptance, if he is paid in these token coins in excess of ten rupees.

In the Indian monetary system, the rupee occupies a peculiar rather an anomalous status. It is a token coin inasmuch as it has a limited coinage and its face value has been put much higher than the value of the metal it contains. But it has got the characteristics of a standard money when we consider that it is an unlimited legal tender and the values of all other commodities, contracts and taxes are determined in terms of rupees. The Indian rupee is neither a standard coin nor a token coin but it imbibes some of the characteristics of both of them. Generally token coins are limited legal tender but it is a characteristic exception in the case of the Indian rupee.

3. *Credit Money.* Credit money is of two classes—(i) which is legal tender, and (ii) which is not legal tender.

(i) Legal tender credit money is also known as paper money which by itself possesses no value but circulates within the political jurisdiction of a country because people have confidence or trust in their Government. Paper money is generally issued by the Government, and it is accepted freely by the people, in the belief, that the issuing authority will redeem it into the standard money of the country when presented to it for conversion. Paper money is usually unlimited legal tender and is accepted by all in payment of their obligations.

(ii) Credit money which is not legal tender money may also take the form of promissory notes of private individuals and corporations, cheques, drafts, bills of exchange which cir-

culate as money, affecting exchanges within a limited area because in their acceptability the receiver must have a full knowledge about the credit of the issuer. They are often called 'qualified or optional money' for they are counted as money so long as they are freely accepted in discharge of obligations. They are not legal tender and anybody cannot be compelled to receive them in payment of goods or in discharge of other obligations.

Systems of Currency

Currency systems may broadly be classified into two divisions—metallic currency and paper currency. In every country, the currency system is devised by its Government in such a manner as to be in thorough consonance with the economic and industrial progress attained by that country. Countries which are highly developed from the economic, commercial and industrial standpoints, have evolved a very complex, expensive and heterogeneous type of currency. In comparatively poor countries, where trade is little developed and industrial activities are very few, the currency system is very simple. A good system of currency is that in which the purchasing power of money remains fairly stable over long periods and which inspires confidence in the public, encourages savings and the formation of capital, increases the quantitative production of wealth, stimulates trade and commerce, and brings material welfare to the country.

The metallic currency may broadly be divided into two categories.

1. Monometallism, or the single metallic standard.
2. Bimetallism, or the double standard.

Let us examine briefly the special characteristics of each system.

Monometallism

A currency system in which only one metal is coined to function as principal or standard money and it is declared unlimited legal tender is called monometallism, and the country is

said to be a monometallist country. Monometallism may be of either gold or silver. If gold is adopted as the basis of currency, that is, if all values are measured in terms of gold, and gold coins serve as standard money, then the system is known as the Gold Standard. While if silver forms the basis of the standard of value, then the system is called the Silver Standard. Monometallism has come to mean gold standard for all practical purposes because, till recently, the currencies of all the important countries of the world were on a full gold basis. Gold Standard implies free coinage, free circulation of gold coins as unlimited legal tender, and an unrestricted export and import of gold. If these conditions are not fulfilled by the currency system of a country, then it no longer claims to be on the gold basis. But under monometallism, it is not necessary that the coins of only one metal should remain in circulation. Paper currency notes, token coins, cheques, etc., also circulate and serve as media of exchange but all values including the values of all subsidiary coins, are determined in relation to the standard coin. Currency notes are accepted generally in all amounts in payment of all debts and obligations as they are convertible on presentation at any time into standard coins. Token coins also circulate as media of exchange for smaller transaction and payments but their coinage is limited and they are declared by law as legal tender for fixed amounts. Under monometallism or the single legal tender system, the mint is open only for the coinage of standard coins; the mint value of the coin and the market value of the metal are the same.

Bimetallism

A currency system in which two metals, usually gold and silver, are used as standards of value, and both are subject to free coinage and declared unlimited legal tender to discharge obligations, is known as bimetallism. Under bimetallism or multiple legal tender system, the manufacture of both gold and silver coins is done gratuitously or at a very nominal charge by the Government, and a fixed ratio of exchange between them

is determined legally. Thus, free coinage, full legal tender and a fixed ratio between the two coins are the three essentials of bimetallism.

The advocates of the bimetallic system believed that by using both gold and silver as standards of value, there will be less disturbances in the value of money and the general level of prices than under a monometallic system of currency. But it is extremely difficult to maintain the legal ratio similar to that of the market ratio of the two metals as bullion. As a matter of fact, the chief defect of bimetallism lies in the absence of any machinery which can bring about a coincidence for comparatively longer periods between the legal ratio fixed by the State and the market ratio of the two metals as bullion. In view of the variations from time to time in the values of bullion in the market, one metal or the other becomes overvalued or undervalued, as a result of which the cheaper metal in the market drives away the other metal from the currency. The bimetallic system of currency was adopted in 1865 by the Latin Union consisting of France, Belgium, Italy and Switzerland. But owing to its unworkability in practice it was discarded in favour of gold monometallism and by 1890 nearly all the countries of the world except America adopted single standard as the basis of their currency.

Paper Money

In modern times, side by side with the metallic money, we notice an extensive circulation of paper money serving the functions of a medium of exchange. In highly progressive nations of the world, paper money on account of its simplicity, convenience and economy is used for making exchanges and discharging obligations on a very considerable scale, thereby displacing standard money to the great relief of the community as a whole.

Paper money consists of the currency notes issued either by the Government of the country, or by a central bank under the strict control of the Government. In India, currency notes

are issued by the Government of India but this function will now be taken over by the newly constituted Reserve Bank of India. In England, paper money is issued by the Bank of England. In fact, currency notes are like token coins printed on paper but as they are usually declared legal tender for all amounts and backed by the promise of the issuing authority to convert them into rupees on presentation at any office of issue, they are generally accepted in satisfaction of all debts and obligations. As paper money has conferred some distinct advantages on the community using it, its circulation has found favour with all the progressive countries of the world. Paper money is broadly classified into two kinds, viz., (1) Convertible paper money, and (2) Inconvertible paper money.

1. *Convertible paper money.* Convertible paper money, as its name suggests, consists of paper notes which carry a promise of the issuing authority for conversion into cash on presentment by the holder. People generally accept such notes in satisfaction of debts and obligations in the belief that the issuers by virtue of their promise are bound to redeem them into specie (or, metallic coins) on demand. So long as the convertibility or the redeemability of paper notes into standard money is ensured, people will have no objection in their acceptability. In order to inspire confidence among the people, it becomes necessary on the part of the issuing authority to keep a certain amount of gold and silver (or, metallic coins) in reserve as a guarantee of the convertibility of notes issued to the public. But as all the notes issued are not likely to be presented for encashment at the same time, the reserve need not be equal to the face value of the notes in circulation. The proportion of metallic money to be kept in reserve against the amount of notes issued for ensuring convertibility differs from country to country according to the requirements of the people and the stage of economic development attained by that country. Convertible notes are, therefore, usually classified into *covered* and *fudiciary*. That amount of note circulation which is fully backed by metallic reserve is called covered, and that for which

there is no reserve and which is issued against securities is called fiduciary or uncovered.

The Indian paper currency is wholly convertible into silver rupees which are themselves token coins printed on silver. Notes of the denominations of Rs. 5, 10, 50, 100, 500, 1,000 and 10,000 are found circulating in India. Currency notes of Rs. 5, 10, 50 and 100 are called 'Universal notes' as they are legal tender in all parts of India and can be encashed at any office of issue while notes of the values of Rs. 500, 1,000 and 10,000 are legally convertible into coins in their own 'circle of issue.' India is divided into seven 'circles of issue' namely Calcutta, Cawnpore, Lahore, Karachi, Bombay, Madras and Rangoon.

2. *Inconvertible paper money.* Inconvertible paper money consists of paper notes for which specie cannot be obtained on demand. Inconvertible notes are always issued by the Government; they are declared legal tender whereby people are enforced to accept them in satisfaction of their debts and obligations. If the issue of inconvertible notes is strictly regulated according to the business and industrial requirements of the community, so that they may not fall in value owing to their superfluity, there is no reason why they should not function as medium of exchange as suitably as the convertible notes or the metallic coins. But the temptation of issuing increasing quantities of such notes, irrespective of the business needs of the community, leads to a depreciation of the inconvertible paper money. The accompanying effects of such an unwise step prove very harmful to the country as a whole. Inconvertible paper is of two kinds. A paper may be declared inconvertible from the time of its issue. Such a type of inconvertible paper was issued by almost every country on the Continent during the War when there was a general scarcity of gold. Secondly, a paper may have been issued with the intention and purpose of redeeming it, but later on, it may have lost its redeemability on account of the insolvency of the issuers. The Bank of England notes which were formerly convertible into specie,

were declared inconvertible due to the financial stringency in 1931.

Merits and Defects of Paper Money

The chief merit of paper money lies in the fact that to the extent of its circulation in a country it makes metallic money available for use in other productive channels. A good amount of labour and capital is employed in the production of gold and silver, and if their use as money is dispensed with, it is sure that so much amount of saved labour and capital will be employed in the production of more necessary goods. Secondly, the cost of minting metallic coins, the loss by wear and tear of precious metals can be saved when paper money functions as a medium of exchange. Again, during periods of financial stringency a Government which cannot raise loans, inside or outside the country, without paying high rates of interest can issue more paper money thus, obviating the necessity of incurring loans. Finally, it is more convenient and less expensive than metallic money for making large payments in distant places.

Paper money is, however, subject to the following defects.

- (1) The value of paper money is very precarious as its value, unlike metallic money, depends solely on the legal authority of the Government. If it is demonetized by law, the holder cannot get anything in its exchange as it possesses no intrinsic value.
- (2) Secondly, the value of paper money is not so stable as that of metallic money. The Government under the pressure of fiscal needs may issue large quantities of paper money even though they might be in excess of the community's demand. The over-issue of notes depreciate their value, leads to a rise in prices and speculation in business.
- (3) Lastly, the area of circulation is very much restricted in the case of paper money.

Gresham's Law

All legal tender money, whether metallic or paper, is meant to serve as a medium of exchange and is thus, generally

acceptable to people in satisfaction of their debts and obligations. Although coins of the same metal having same weight and fineness are issued by the Government mint, yet in course of time many of them lose weight due to wear and tear or become debased owing to the fraudulent practices of wicked people. The worn out coins are found circulating side by side with the fresh and full-weight coins having the same nominal value. But it is usually seen that when two legal coins of the same nominal value are in circulation, the inferior coin drives superior coin out of circulation. In economic science, this tendency of bad money driving good money out of circulation passes by the name of Gresham's Law, because it was Gresham, the financial adviser to Queen Elizabeth, who formulated it scientifically after having a close observation on the nature of the currency during his own time.

Since the time of Gresham the Law has been slightly modified and it is now usually stated in three forms.

1. When good and bad coins of the same metal circulate together as legal tender, the bad money tends to drive out the good money out of circulation because the good or full-weight coins can be kept back from circulation or hoarded or melted down for other purposes. Both kinds of coins having equal face value command the same power of exchange in circulation, but the full-weight coins in the form of bullion are more valuable than the light-weight coins. As payments to foreign creditors are made not in coins but in bullion by weight, debtors will necessarily pay off their debts by passing on to their creditors fresh and full-weight coins. Again, when people hoard money they always tend to pick up fresh and glittering coins, because from the point of view of storability, they are considered to be more suitable. If coins were to be melted down for ornamental purposes, heavier coins will be taken out as they will be more valuable in bullion form.

2. In a bimetallic system of currency when gold and silver coins circulate side by side as full legal tender at a legally fixed ratio, the overvalued metal will tend to drive the undervalued

metal out of circulation. The market value may vary from the legally fixed value. Under such circumstances, 'the tendency will be for the coins with a smaller market value as bullion to drive out of circulation the coins with a higher market value.' Supposing the legally fixed ratio of exchange between gold and silver is 1 : 15 while their market value becomes 1 : 17. In such a case silver coin is overvalued because it maintains a higher value in the form of coin than as metal, and the gold coin becomes undervalued because its mint ratio is 1 : 15 while the market value is 1 : 17. Gold coins will be kept back as their power of exchange is much superior in other uses than as coins. The currency will be flooded with overvalued metal, i.e., silver coins, and gold will be hoarded, melted or exported as bullion.

3. A third application of the same tendency is to be found when an inconvertible paper money is circulating side by side with metallic money, and both are declared legal tender for full amounts. If the inconvertible paper currency is issued in excess of the business needs of the community and there is no provision for redemption into metallic money, its value will depreciate in terms of metallic money. Everybody will try to pass on depreciated notes in circulation and retain metallic money with the idea that, if once parted with, it will be very expensive to secure it again.

Limitations of the law. The operation of this tendency holds true under certain given conditions and is subject to the following limitations.

Firstly, if the full-weight coins are token coins and limited legal tender, they will not go out of circulation because by legal enactment their face value is higher than the value of the metal contained in coins. Their use as coinage is more valuable as compared with their use as metal.

Secondly, if the aggregate circulation of good and bad coins in a community is barely sufficient to meet her commercial and industrial needs, then the good coins will circulate side by side with bad coins. People will have no temptation to with-

draw good money from currency because it will command a higher value in coinage use. However, if at any time the currency requirements of the community are below the aggregate of good and bad coins in circulation, the better coins will be withdrawn to the extent that the two together exceed the requirements of the community.

Lastly, if the bad money has become so inferior in point of weight and fineness as to be rejected by people in payment of obligations, then bad money instead of driving out good money will itself be driven out of circulation. Scores of instances are on record when inconvertible paper money, extremely depreciated in value, was rejected by people and was driven out of circulation.

Appreciation and Depreciation

It has been already referred that perfect stability in the value of money is an impossibility; variations in the value of money are common phenomena of the business world. By the value of money is meant its general purchasing power in terms of commodities and services. The value of money, like that of other commodities, is determined by the relation between the demand for money and its supply at any given time. The demand for money arises due to the exchange transactions that are to be effected by money. Supply of money depends on the total quantity found in circulation at any given time. Like the value of other commodities, the value or purchasing power of money changes from time to time and from place to place according to variations in its supply and demand. It rises or falls proportionately with a decrease or an increase in the quantity of money in circulation at any given time.

A rise in the value of money means an increase in its purchasing power, that is, a unit of money now purchases a larger amount of goods than it did formerly, or less money is now needed to purchase a certain amount of commodity where more of it was required previously. For instance, if one rupee purchases now 12 seers of wheat or one seer of ghee or $2\frac{1}{2}$

seers of sugar instead of 8 seers of wheat, eight chataks of ghee or 2 seers of sugar which was the current ratio of exchangeability previous to the commencement of the recent economic depression, it can be said that there has taken place a rise or appreciation in the value of money. A rise in the purchasing power of money leads to a fall in the general level of prices. Thus, appreciation and fall in the price-level go side by side.

On the other hand, a fall in the value of money denotes a decrease in its purchasing power, that is, a unit of money in such a case purchases a less amount of commodity than it did formerly. For example, if Rs. 5 are required to purchase a fountain pen which could be had for Rs. 4 formerly, there is said to be a fall or *depreciation* in the value of money. Hence, depreciation and rise in the price-level go together. Depreciation must be distinguished from *debasement* and *deterioration*. Debasement is generally practised by weak or insolvent governments: it refers to the difference between the standard and the real value of the precious metal contained in a coin. Deterioration connotes a loss in the legal weight of a coin through wear and tear or through clipping and sweating.

So the value of money rises and falls as the price-level becomes lower or higher. Such variations in the price-level, and, therefore, in the purchasing power of money are brought about by shortage or excess of money in relation to demand.

Inflation and Deflation of Currency

Every country at any given time requires a definite quantity of money firstly, to satisfy her needs of trade, commerce and industry, and, secondly, to avoid wide fluctuations in prices. When the supply of money is increased to such an extent that it is felt as exceeding the due requirements of the country, there is said to be an inflation of the currency. Inflation results in depreciation and a rise in the general level of prices. It should be, however, noted that the term inflation is usually applied to that state of over-issue of currency—consisting mostly of inconvertible paper money and debased metallic coins—

brought about deliberately by a Government in order to stem the period of financial stringency. During the Great War, there took place an unprecedented inflation of currency as a result of which the value of money fell considerably and the general level of prices rose to unimaginable heights.

Deflation of currency refers to the contraction of currency to such an extent that the aggregate media of exchange fall short in relation to the demand of the country. It is generally resorted to by a Government to increase the purchasing power of money. Deflation of currency took place extensively after the termination of the War. Deflation of currency leads to appreciation, an increase in the purchasing power of money, and a fall in the general level of prices. •

Effects of Appreciation and Depreciation

Deflation (or appreciation) and inflation (or depreciation) are the two recurring diseases of money, the incidence of which is felt unequally by different classes of people in a country. Some are benefited while others are affected adversely by a change in the general level of prices or by a change in the value of money. 'Changes in the value of money, i.e., fluctuations in prices, are generally harmful because they disturb the even basis of trade and industry, and because they tend to benefit some classes at the expense of others.' Deflation proves injurious in the sphere of production of commodities and inflation in that of distribution.

Depreciation of money or rising prices are advantageous to producers and sellers of commodities. In times of rising prices, business is stimulated and improvements are effected in the methods of production. Entrepreneurs are benefited because the cost of production does not show a corresponding increase with the rise in prices. At least for the time being apparent signs of progress and prosperity are visible in the industrial and commercial activities of the country under inflationary conditions. On the other hand, falling prices produce deleterious effects on production because the stocks of the manufacturers

bring a smaller amount of money. Prices fall rapidly without a corresponding decrease in the cost of production as a result of which they are forced to restrict the scale of production. Labourers are dismissed, unemployment is created and a general gloom sets over the industry.

During periods of rising prices, the purchasing power of money is reduced in consequence of which the interests of consumers are affected adversely. They stand to lose in their satisfaction to the extent of the rises in price. Persons who get more or less fixed incomes, e.g., fixed-salaried servants, pensioners, etc., suffer immensely as the same money income, in times of rising prices, brings less commodities and, therefore, decreasing satisfaction than before. Wage-earners are injured in so far as their money wages do not show a proportionate increase with the rising prices and till the time they get adjusted to the new price-level they will stand to lose in their satisfaction. Falling prices are beneficial to consumers, wage-earners and persons with fixed incomes.

The interests of debtors and creditors run counter. If prices rise the value of money falls; debtors as a class gain what creditors lose. Although debtors pay the same amount of money (together with the interest on it) which they borrowed from their creditors at the time of falling prices, yet in terms of commodities they pay a less amount of money as it now purchases a smaller amount of commodities. Thus, in times of rising prices such creditors as money-lenders, investors and debenture-holders lose what their respective borrowers gain. If prices fall the position is reserved and creditors, consumers and wage-earners secure a real gain because of an increase in the purchasing power of money.

Thus, it is seen that fluctuations in the price-level involve serious hardships to the different classes of people by altering the distribution of wealth and affecting the production of goods in a country. Rising prices create an element of uncertainty, vagueness and speculation ending in a crash of industrial activity. Falling prices are, also detrimental to the economic well-being of

the country as they are usually accompanied by trade depression, financial crisis and unemployment. Undoubtedly, instability in the value of money is a characteristic phenomenon of modern times. Though it has baffled so far man's ingenuity to find out a commodity whose value remains absolutely fixed over a comparatively long period, yet it is highly desirable from the point of promoting economic well-being of the country that variations in the value of money should be kept within minimum limits. Steady prices are beneficial to traders and manufacturers, investors and workmen as a whole, specially over a long period.

Indian Currency

Our rupee which claims descent from the silver 'tanka' introduced by Sultan Altamash in 1233 A.D. underwent several changes before the year 1835 when the present rupee weighing 180 grains (11|12th fine) was formally established as a standard coin by the East India Company. This reform was necessary to avoid a bewildering multiplicity and variety of coins of gold and silver of various denominations, weight and fineness. There were as many as 994 different coins in circulation issued by the various Hindu and Mahomedan rulers to signalise their independence by adopting special coins of their own. This chaotic condition of the currency seriously hampered the trade and commerce of the country and needed the services of appraisers to ascertain the value of the coins used by the people. With the adoption of the rupee as the standard coin for the whole of British India, all other coins of gold and silver ceased to be legal tender but to satisfy the requirements of the people, however, gold coins were accepted at Government treasuries at different rates.

From the year 1870, there was a rapid fall in the prices of silver forcing the various Western countries to close their mints for the free coinage of silver. This depreciated white metal began to flow on a large scale into India and endangered the standard nature of the rupee which went on depreciating

in terms of gold. The gold value of the rupee fell from 2s. in 1871 to 1s. 2d. in 1892 and caused a rapid disorganisation in the finances of the Government of India which had to procure an additional amount of rupees to make payment of Home Charges in England. Uncertainties regarding the value of the rupee in terms of gold brought about heavy losses to the Indian Government and reduced the trade of the country to a mere gambling in foreign exchanges. The cry to reform the currency system of the country led the Government to appoint a committee under the presidentship of Lord Herschell which recommended the closing of the mints for the free coinage of silver and fixed the rate of exchange at 1s. 4d. per rupee. At this rate the rupees were to be issued in return for gold received by the Government. The rupee was thus reduced to a token coin and the silver standard was abolished without establishing a gold standard.

The immediate effect of the closing of the Indian mints was a more rapid decline in the prices of the white metal and the famishing of the money market on account of the scarcity of the rupees. To do away with these defects and to establish a sound monetary system in India, the Fowler Committee was appointed in 1898. The Committee declared itself in favour of a gold standard with a open mint and with sovereigns and half-sovereigns circulating as unlimited legal tenders at the rate of Rs. 15|- for a sovereign. It discouraged the coinage of fresh rupees and created a fund out of the profits of coinage. The attempts of the Government to introduce gold coins into circulation proved a failure as most of the coins issued by the Government came back to the Government treasuries. This alleged dislike of gold coins by the Indian people drifted the Government policy aimlessly towards a system which is called the Gold Exchange Standard—a standard without gold coins in active circulation. The chief characteristics of this system are:—(a) the Government of India takes upon itself the responsibility to sell sterling bills, known as Reverse Council Bills, at a rate of exchange of 1s. 4d. per rupee minus the cost of

transporting gold from India to England, (b) the Secretary of State for India sells Council Bills drawn upon the Indian Government at a rate of 1s. 4d. per rupee plus the cost of sending gold from England in India. This sale of the Reverse Council and Council Bills at the lower and upper specie points respectively maintains the gold value of the rupee at a fixed parity with very slight changes. No doubt this system brings about stability of the rate of exchange with England and gives a cheaper currency for internal circulation, but it is characterised as an artificial system in which people have little faith and which is liable to breakdown as was witnessed during the Great War.

The Chamberlain Commission of 1913 recommended that a gold currency is not a necessary condition of the gold standard. It is neither advantageous to India nor the Indian people desire it.

The Indian currency system suffered a considerable disturbance during the Great War when the prices of silver went so high as to make it profitable to melt rupees. The Government was faced with the situation of coining fresh rupees to satisfy the ever increasing desire of the people for rupees. The mints were pitted against the melting pot and the currency notes were on the verge of inconvertibility. To save the rupee from the melting pot and to maintain the convertibility of the currency notes in circulation, the Government was forced to issue Rs. 2-8-0 and Re. 1 currency notes and other token coins made of nickel.

As soon as the war was over, the Government appointed the Babington-Smith Committee in 1919 to examine the currency system of India. It recommended that, as the rise in the value of silver had come to stay, the rupee be linked to 2s. gold to bring about stability in the rate of exchange. It also favoured the Gold Exchange Standard System and advocated the use of more currency notes in circulation. The prices of silver did not behave as was expected while the balances of trade were becoming against India due to heavy imports.

These factors brought about a great divergence between the market rate and the Government rate of the rupees in terms of gold and all the heroic efforts of the Government to maintain the recommended ratio of 2s. gold failed miserably. In short the period was marked by 'financial and commercial confusion'.

As the entire country was crying for reforming the currency system, the Government appointed the Hilton-Young Commission in 1925. It recommended the adoption of the Gold Bullion Standard—a standard without a gold currency in circulation but with a promise to make gold, in the form of bars, available for all purposes at the rate of Rs. 21-3-10 (1s. 6d. per rupee) per tola—and advocated the establishment of a Reserve Bank in India with the powers of issuing currency notes and controlling other currency matters. The rupees and currency notes were to remain unlimited legal tenders as before. It kept the door open to establish a full-fledged Gold Standard as soon as the Government finds itself in a position to do so.

The Reserve Bank of India has started its work and all eyes are fixed towards it for introducing the necessary currency reforms in India.

The Indian Paper Currency System

Before 1861, The Presidency Banks of Bengal, Bombay and Madras had the privilege of issuing their own notes payable to bearer on demand. These notes, however, had only a very limited circulation. The Act of 1861 established the Government monopoly of issuing notes of the denominations of Rs. 5, 10, 20, 50, 100, 500, 1,000, and 10,000 and divided India into seven circles of issue, namely, Calcutta, Bombay, Madras, Cawnpore, Lahore, Karachi and Rangoon. These notes were legal tender only in their respective circles of issue and were convertible into rupees at the currency offices. In order to popularise them, notes of all denominations up to Rs. 100 have been made universal (legal tender) throughout India. Facilities for converting notes into rupees at the various Government treasuries

and the branches of the Imperial Bank of India were also extended to the holders of notes.

The convertibility of our notes is maintained by a paper currency reserve consisting of rupee and sterling securities and a large amount of gold and silver bullion and coins. The security portion of the reserve did not exceed Rs. 14 crores up to the year 1913, when the exigencies of the War led to a rapid rise in the total notes in circulation and forced the State to increase the invested portion of the reserve to Rs. 120 crores. In 1920, on the recommendation of the Babington-Smith Committee, the Government adopted a minimum of 50 per cent metallic reserve against notes in circulation and provided for an issue of 'emergency currency' upto Rs. 12 crores on the security of the inland trade bills (hundies).

As recommended by the Hilton-Young Commission, the issue and management of the paper currency were handed over to the Reserve Bank of India in 1935. To increase the elasticity of note circulation, the Reserve Bank of India will adopt a proportional reserve system. Our total note circulation in India exceeds Rs. 170 crores today and statistics prove clearly that note circulation is extending much more rapidly than was expected.

CHAPTER XVIII

CREDIT, BANKING AND TRADE

The Meaning of Credit

An exchange transaction can be carried either in cash wherein the purchaser makes an immediate payment to the seller for the goods purchased, or on credit in which case the purchaser acquires goods not by making an immediate payment but on the promise to pay an equivalent value or a little more than that at some future time. Since in a credit transaction the transfer of goods takes place for a promise of deferred payment, it is obvious that the creditor or seller must have confidence in the honesty of the debtor or buyer, otherwise he would not think of lending money nor transferring his goods. Confidence, therefore, forms an essential and foremost part of credit. In everyday language, the word 'credit' means simply 'belief' or 'confidence,' but in Economics, as S. Evelyn Thomas points out, the term credit is now applied to that belief in a man's probity and solvency which will permit of his being entrusted with something of value belonging to another, whether that 'something' consist of money, goods, services or even credit itself, as when one man entrusts to another the use of his good name and reputation. But confidence is not the only element required in a credit transaction. The time element is equally important in credit inasmuch as the transfer of present money or something of value takes place for a promise to repay it after some time. Besides confidence and time, amount is the third element of credit. As credit is a 'right or privilege' extended by the creditor to his customer allowing him to make payment at some future date for the goods parted with today, it is apparent that this credit will be granted according to the

degree of confidence enjoyed by a customer at the hands of his respective creditors. A creditor may hesitate to give credit for large sums while he may not feel any objection in allowing credit for a small amount of money or money's worth to a particular customer. Thus, *confidence*, *time* and *amount* may be regarded as the three main elements of credit. The written evidences in which promises are drawn up to pay money, after a specified period of time, are known as *Credit Instruments*, which serve as important media of exchange in modern times.

Importance and Advantages of the Credit System

Credit plays a very prominent part in the organisation of production, industry and commerce in the modern industrial economy; its importance cannot be over-emphasised and necessity can scarcely be overlooked. Credit is organised through credit instruments such as cheques, bills of exchange, *bundies*, bank notes, bank drafts, etc., and the dominant position in the organization of the credit system is occupied by a 'bank' or a 'banker.' As a matter of fact, the functions and organisation of banking are closely allied to the functions and organisation of credit. Credit is the bedrock upon which is raised the structure of a bank. As credit acquires an increasing force in the commercial and industrial activities of a society, banking arrangements get highly developed and efficient. As a general rule, it may be stated that most of the transactions in wholesale and retail trade are today partially or wholly carried on credit basis as a result of which businessmen are enabled to conduct their productive activities much more conveniently and economically. Credit has been styled as the life blood of commerce and as the "heart and core of the modern business structure."

The chief functions and the advantages of credit may briefly be summarised below:—

1. Credit economises the use of metallic money and thus, substitutes a cheap medium of exchange for a more expensive one, which, in view of the enormous expansion of trade and

industry, would be insufficient to meet the modern requirements. Through credit instruments the transfer of money from one place to another can be effected much more conveniently and economically. A merchant of Karachi who purchases wheat at Amritsar worth fifty thousand of rupees need not incur the trouble and expense of transmitting money to the merchant of Amritsar by rail or post. By means of a credit instrument he can easily transfer money to his creditor at a very nominal charge. Thus, credit facilitates trade and commerce. Even in the settlement of international debts, mutual obligations are cancelled through foreign bills of exchange and only the outstanding balances are shipped in gold or silver.

2. It is by means of credit that saving instinct is encouraged and formation of capital is made possible. People save and give their savings to their customers in the belief that they will employ them much more productively than themselves. Banks create opportunities for the profitable investment of money ensuring its repayment to their clients at the promised time, in consequence of which money is attracted from all depositors and is utilised for the benefit of industry, trade and commerce.

3. In modern times, credit stands primarily for the furtherance of production by rendering capital more productive in the hands of capable businessmen. Producers who are capable of inspiring confidence in respect of their character and business ability can secure credit for industrial enterprises. In the absence of any credit facilities, many of the producers with insufficient means will find it extremely difficult to enter into business and start any productive work.

4. A well-regulated credit policy tends to minimise fluctuations in prices and stabilise trade conditions by restriction of credit facilities during booms and by an expansion of credit facilities during and after a period of depression. In short, the modern mechanism of credit is a very powerful factor in promoting the industrial, commercial and economic advancement.

Evils of Credit System

Although credit confers manifold advantages, yet they are not unmixed. The use of credit paper money, if abused, is attended sometimes with grave evils and dangers. It must be remembered that the entire superstructure of credit is ultimately based on the strength of the resources of metallic money and on public confidence. If once confidence is shaken, the credit mechanism collapses, bringing in its train gloomy results on trade, industry and commerce. Some of the possible disadvantages involved in the credit system may be pointed out as follows:—

1. The greatest danger of credit lies in the over-issue of credit than what is actually required by the business needs of the country. The temptation to expand credit unduly, in times of flourishing trade, is very great and because this feeling can hardly be resisted speculation, over-investment, over-production, financial crises are the ultimate consequences that follow such an unwise credit policy.

2. Facile credit specially for consumption purposes may lead to extravagance and indebtedness which may endanger the smooth progress of society in a variety of ways. In India, cheap and easy credit available to peasants for personal consumption is regarded as one of the causes responsible for their indebtedness.

3. Again entrepreneurs of inferior ability having credit may squander money on visionary and unproductive enterprises and yet they may be enabled to remain in business simply by means of credit. Their eventual collapse will not only bring ruination to themselves but to all those whose capital was invested by them for use. Thus, the modern credit system is responsible for the 'concealment of financial weaknesses' of a business.

4. The credit system is also responsible for the formation of monopolistic combinations of producers at the expense of individual private enterprise. Some writers think that although

'the results are not necessarily harmful, they may not be so beneficial as when the capital is in the hands of a number of individual producers.' Such monopolistic organisations are often a source of exploitation of labour and of unfair competition.

In view of these dangers involved in an indiscriminate organisation of credit, it is very necessary that credit mechanism should run on well-regulated and judicious lines.

Is Credit Capital?

At one time it was maintained by some economists that credit is capital and can create wealth quite as well as land and labour. But credit cannot be regarded as a separate factor of production. Prof. Gide remarks: "Credit is a particular *method* of production—just like exchange and division of labour. It consists of transfer of wealth or capital from one person to another. Credit can no more create wealth than exchange can create commodities." Credit facilitates production by enabling the transference of wealth from the savers to the users and from the less capable to the more capable. Credit, therefore, is not capital itself; it is a device by which exchange transactions can be effected much more conveniently and economically. From the individual point of view, credit may be regarded as capital inasmuch as the borrowed money can help a trader or manufacturer to increase his business. But from the social point of view, credit is not capital in so far as the amount lent to a borrower is not doubled but is merely passed on to the hands of the borrower from the possession of the creditor.

Nevertheless, it must be pointed out that credit creates new capital to the extent to which it replaces metallic money from circulation and it also increases the amount of effective capital available for production inasmuch as small savings of the people, which could not have been employed for productive purposes or otherwise spent in personal gratification, are now pooled up for production. Banks which organize credit attract savings of all those who for some reason or other cannot make a better use of them. In the absence of credit facilities many of the

producers of good organising ability would have found it almost impossible to build up their businesses on such a colossal scale. Thus, credit indirectly promotes the accumulations of capital and stimulates production.

The Mechanism of Credit

In order to take the maximum advantage of credit mechanism for the development of trade, commerce and industry, a very complicated machinery has gradually come to be set up at the present day for the control and organisation of credit and credit operations. The machinery by which credit operations are organised consists of two parts:—

1. *Credit Instruments*, the evidences of indebtedness such as cheques, drafts, bills of exchange, promissory notes, etc.
2. *Credit Institutions*, consisting of Banks with their Clearing Houses.

Credit Instruments

A credit instrument may be defined as a written document issued by a Government or a corporation or an individual containing a promise to pay money at a future date. Like money, credit instruments also facilitate exchange transactions but their circulation is restricted because their acceptability is conditioned by the confidence reposed by the receivers in the honesty and financial standing of the drawers. The stronger and wider-known the credit of the issuing party, the greater will be the circulation or negotiation of its credit instruments. The important credit instruments are promissory notes, cheques, drafts, bills of exchange and *bundies* which are treated below in details.

Promissory Notes

The Indian Negotiable Instruments Act defines a promissory note as an instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to

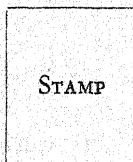
Form of a Promissory Note

Rs. 200

CAWNPORE

June 26, 1937

Three months after date, I promise to pay to Messrs. Sri Ram Raj Kumar, or order, the sum of Rupees Two hundred only for value received.



(Sd.) RAM KRISHNA

To

Messrs. Sri Ram Raj Kumar
Cloth Merchants
Jaipur

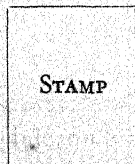
Or,

Rs. 200

BOMBAY

The 7th June, 1937

I promise to pay on demand to Mr. Ram Lal, or order, the sum of Rupees Two hundred with interest at 9 per cent per annum for value received.



(Sd.) M. Y. KHAN

To

Mr. Ram Lal *B.A., LL.B.*
67 Civil Lines
Lucknow

the bearer of the instrument. (Notes are usually issued by individuals and corporations and they must be distinguished from Bank Notes or Government Notes.) If a buyer is known fully to the seller regarding his business morality, then the buyer by executing a promise to pay either on demand or after a specified period of time can have the desired goods from the seller. A promissory note is usually drawn in the manner as shown already.

The expression 'for value received' signifies that the writer has drawn the promissory note in exchange of payment for a real transaction and that no forgery has been displayed upon him. A promissory note has only two parties—the maker or the drawer of the note and the payee who is the creditor of the drawer. In order to make it legally valid, an *ad valorem* stamp is affixed to it.

Cheques

In advanced countries, where banking habits are developed to an appreciable degree, people, for reasons of convenience and efficiency, prefer to keep their accounts in banks and draw money for their various requirements through cheques. A cheque is a written *order* on a specified bank made by the depositor to pay an amount of money specified therein to the order of a person named or to the bearer of the cheque. A cheque is always payable on demand and the bank cannot refuse to encash it provided the depositor maintains sufficient money in bank to meet a cheque. For the sake of convenience, uniformity and security against any fraud each bank issues its own cheque book for the use of its depositors. The person who draws or writes a cheque, i.e., the customer of the bank is called the *drawer*; the bank on which the cheque is drawn and which makes the payment is called the *drawee*, and the person in whose favour the cheque is drawn is known as the *payee*. Sometimes the drawer makes the cheque payable to *self* when he requires to withdraw money from the bank for his own personal needs.

In order to have a clear idea of a cheque, the reader is referred to examine the following specimen of a cheque carefully.

The specimen of a cheque shows that it contains two unequal parts divided by a perforation. The right-hand oblong portion is the cheque proper filled in by the depositor with his signature at the right-hand bottom corner; the left-hand part is called the counterfoil and is retained by the drawer in his cheque book as a memorandum. Jai Pal Singh is the drawer of the cheque and the Bazar Branch, Bareilly of Bareilly Corporation (Bank) Ltd., is the drawee, and Raj Pal Singh is the payee in whose favour the cheque has been drawn. It is a bearer cheque and money can be had on its presentation to the bank.

From the point of transferability, a cheque may be an Order Cheque or a Bearer Cheque.

A 'bearer cheque' is payable to the holder or possessor or, bearer of it, that is, the bearer can receive payment the moment it is presented for encashment on the counter of the bank. A bearer cheque does not require any endorsement and the bank is not blamed for its negligence or inaccuracy if the payment is made to a wrong person, as the bank is not required to take any proofs to find out whether or not the payee is the rightful claimant.

A bearer cheque becomes an 'order cheque' if the word 'order' is inserted by the drawer after having struck out the word bearer. An order cheque is safer than a bearer cheque, as the bank will not encash it unless the payee gives a proof of his own self. The bank must satisfy itself that the person to whom a payment is to be made is the rightful claimant. Again, an order cheque cannot be transferred to any one else unless it is endorsed by the payee. By endorsing it, that is, by signing his name on the back of the cheque the payee can *order* or *authorise* any other person to receive the money. Thus, the negotiability or the transferability of an order cheque depends upon endorsement.

A crossed cheque is a cheque on the face of which two

Form of a Cheque

No. 57529

No. 57529

20th December 1935

Bareilly Corporation (Bank) Ltd.

Bazar Branch, Bareilly

20th Dec. 1935

In favour of.....

Mr. Raj Pal Singh

बरेली कारपोरेशन (बैंक) लिमिटेड

بہری کارپوریشن (بنک) لمیٹید

Pay Mr. Raj Pal Singh

or Bearer/order

Rupees Two Hundred and annas eight only.

Rs. 200/8/-

Rs. 200/8/-

Jaipal Singh

 BAREILLY CORPORATION (BANK) LTD.

vertical parallel lines are drawn with expressions like "A|C" or "& Co." between them. The effect of this crossing is that the payee cannot get cash on presentation. The amount of the cheque will be credited to the account of the payee and if the payee wants to draw the money he will be required to write another cheque upon the same bank. Such cheques are very safe and ensure payment to the desired person only. The payment through a cheque is very convenient and safe and practically no time elapses between the offer of a cheque and its final encashment. In spite of their convenience, cheques cannot be called money as they are not legal tender and as their circulation or negotiation is restricted to a narrow area in which the solvency of the parties is known to one another thoroughly.

Bank Drafts

A bank draft is a cheque drawn by a bank upon another bank or its own branch at a different place, requesting it to pay the sum of money mentioned therein to the order of the person named, or to the bearer on demand. A bank draft is usually payable on demand. In this case the bank that makes the draft is the drawer, the bank on which it is drawn is the drawee and the person to whom it is payable is the payee.

Traders and merchants are often required to remit money to their creditors living in distant cities and countries. One of the cheapest methods available to them for discharging their obligations is to get a bank draft drawn in favour of his creditor on depositing the cash in the bank. The bank issuing such a draft charges some commission for doing this service. Foreign payments are usually made through bank drafts which require no acceptance—being payable on demand.

Bill of Exchange

A bill of exchange is an instrument in writing, containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

Form of a Bank Draft

No. 14719

BAREILLY BRANCH

Bareilly Corporation (Bank) Ltd.**Exchange for Rs. 500-0-0***5th July 1937*

On demand pay this *Sola* of Exchange to the order of
Seth Shanti Prasad Ram Kumari the sum of Rupees five hundred
only.

To

The Manager

Shahjahanpur Branch

Bareilly Corporation (Bank) Ltd.

For Bareilly Corporation (Bank) Ltd.

.....

Under Rupees five hundred and one only

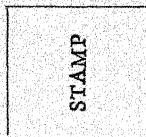
A bill of exchange is used exclusively for commercial purposes. There are three parties to a bill of exchange—the drawer, the drawee and the payee. The drawer is the person who writes out or drafts the bill, i.e., the creditor or the seller of the goods. The drawee is the person who is directed to make payment according to the conditions specified in the instrument. The payee is the person to whom the money is to be paid and he is usually the creditor of the drawer. A bill of exchange is drawn by the creditor requiring his debtor to pay the sum specified in the bill either to self or somebody else. After a bill has been drawn by the seller of the goods, it is presented to the buyer or the drawee for his acceptance. The drawee accepts the bill by writing the word 'accepted' and putting his signature on the face of the bill and he becomes liable to pay the amount specified at the due date.

From the point of view of payment, a bill of exchange may be of two kinds. It may be payable on demand in which case it is called a *sight bill* or *Darshni Hundi*. A bill of exchange in which the drawee is required to pay the specified sum after a stipulated period of time—say after *thirty* or *ninety days* of the acceptance of the bill—it is known as *time* or *usance bill* or *Muddati Hundi*. In the case of time bills three extra days known as *days of grace* are allowed in addition to the time mentioned in the instrument. A sight bill is just like a cheque. But more generally bills of exchange are time bills, and as Hartley Withers has stated, 'the element of time is the real outstanding quality in the bill of exchange which separates it from the cheque.'

Bills of exchange may be 'inland bills' or 'foreign bills;' the former are used in discharging internal obligations, the latter are meant for meeting foreign obligations, i.e., they are drawn in one country and are payable in another country. Just as internal bills facilitate exchange transactions obviating the necessity of metallic money to a considerable degree, similarly foreign bills facilitate external trade and serve to settle foreign obligations without the flow of specie or bullion to foreign countries.

Form of an Inland Bill of Exchange

Rs. 100/8/-



DELHI

The 1st July, 1935

Ninety days after sight of this bill please pay to
 Messrs. Rama Brothers or order the sum of rupees one
 hundred and annas eight only for value received.

*Payable to the order of the
 Sd. B. Lal for Kapoor & Sons
 Bankers, Calcutta*

To

MESSRS. KAPOOR & SONS
 CANNING

For THE NATIONAL STORES LTD.
 R. SARAN
 Proprietor

The bill of exchange discharges two obligations at the same time. The drawer of this bill, i.e., R. Saran is the creditor of Messrs. Kapoor & Sons, but to the same extent he is a debtor to Messrs. Rama Brothers. He, therefore, draws a bill on Kapoor & Sons, sends it to Rama Brothers who will present it to Kapoor & Sons for acceptance. On getting the acceptance of the drawee, it becomes a negotiable instrument which can be used for discharging any further obligation or can be discounted, i.e., encashed at the counter of the bank after deducting the interest for 93 days at the market rate prevailing at that time.

Hundies

Hundies are indigenous credit instruments which are often called Indian bills of exchange. They are internal bills of exchange and have been used by Indian merchants for making remittances in the course of exchange transactions from very remote times. Their circulation depends on local usages and customs prevailing in the mercantile community and in some respects the provisions of the Indian Negotiable Instruments Act also apply to them. They are issued by creditors or sellers of goods and discounted by big *shroffs* or bankers. The banks also discount hundies if they have been endorsed by a shroff known to the bank as regards his financial standing. Hundies are generally written in *Mundia* in Northern India; their language is full of formalities and their modes of presentation for acceptance and payment also differ from locality to locality.

Hundies are broadly divided into two classes, viz.,

1. *Darshni* Hundies (or, sight bills) which are payable on demand.
2. *Miti* or *Muddati* Hundies (or, time or usance bills) which are payable after the expiry of the term specified in the Hundi. Days of grace allowed to such instruments range generally from three to five.

Form of a Darshni Hundi

No. 2341

OM

Sidh Shree Bikaner Shubhsthanak shree patri bhai Ram Lal Jagat Lal Jog Bareilly se seth Banwari Lal Purshotam Das, ka jai gopal banchna. Appranch Hundi kita nag ek apke upar kari. Rupaia panch sau ankan rupia 500 nime rupia 250 ke doona dena yahan rakkhe bhai Ram Chandar Kishen Lal miti Phagan sudi naumi. Turant shah jog rupia chalan bazar thikana lagia chaukas kar dam dena. Hundi likkhi miti phagan sudi naumi samvata 1990.

Daskhet: *Banwari Lal Purshotam Das*

No. 2341

Literal Translation

To Bhai (brother) Ram Lal Jagat Mal of pleasant and prosperous place of Bikaner, written from Bareilly by Seth Banwari Lal Purshotam Das whose greetings please accept. Further, a hundi is drawn on you for Rs. 500, in words five hundred, half of which is Rs. 250, the double of which payable, in favour of Bhai Ram Chander Kishen Lal on *Phagan Sudi Naumi*. Immediately on demand please pay the amount thereof in current coins to the presenter after making enquiries regarding title and address according to the bazar practice. Hundi written on *phagan sudi naumi* 1990.

Sig. *Banwari Lal Purshotam Das*

By way of explanation, it may be added that Banwari Lal Purshotam Das are the drawers of this hundi, Ram Lal Jagat Mal are drawee, and Ram Chandar Kishen Lal are the payee. The practice of stating the amount of money in different manners is very good inasmuch as it prevents the possibility of any fraud in the transaction. Miti hundies (or usance bills) are also written practically in the same style with the difference that it is payable after some period of time specified in the bill.

Banks and their Functions

The term 'bank' has been defined in various ways by different writers. This multiplicity of definitions arises mainly due to the diverse and intricate functions discharged by a bank in modern times. For our purpose it would be sufficient to say that a bank is an agency which borrows money from those who are in a position to give and lends the same at a higher rate of interest to those who require it and can utilize it with advantage. The business of 'borrowing and lending' may be carried on either by an individual or a corporation and these are properly spoken as 'banker' or 'bankers.' But as the two primary functions are based upon credit, therefore, a bank is more appropriately called an institution dealing in money and credit. The importance of efficient and regulated banking organisation in the economic construction of a country is enormous.

The importance of banking organisation can better be understood by dealing briefly with the services and functions performed by a bank.

1. The essential function of a bank is to borrow money in the shape of deposits from its customers on the promise that it will be paid back to the depositor on his making a demand through a written order, for repayment. By ensuring a safe custody of the money deposited with them and by guaranteeing to pay interest on it, banks accumulate into one great reservoir the small and big savings of individuals and corporations which are not in a position, for some reason or other, to utilize them to the best advantage. A bank receives deposits on 'current account,' 'deposit account' and 'savings bank deposits.' On deposits in the current account the depositor is allowed to withdraw money by cheques without giving any notice to the bank. Generally no or very little interest is paid on such deposits. On deposit accounts the bank pays a fixed rate of interest according to the length of the period the money is deposited with the bank. As a rule, the longer the period for which

money is kept in fixed deposits the higher is the rate of interest paid. In case of fixed deposits, the depositor is not permitted to withdraw money before the time fixed for withdrawal. In case of savings bank deposits, banks, with a view to promote thrift and savings among the poor persons, allow them to deposit small amounts of money. A moderate rate of 2 or $2\frac{1}{2}$ per cent is paid on such accounts.

✓ 2. Banks raise deposits in order to invest them profitably. There are persons in every society who possess the requisite business acumen, experience, skill and talent but lack in capital. Banks prove the most suitable helpmate of such persons in so far as they strive to remove this deficiency by transferring the wealth from the hands of 'incapable' to those who can make a proper use of it. It must be known that only a small portion of the money is required to defray at any time the demand of depositors, the rest may be advanced as loans 'to the multitude of borrowers in a modern community who are anxious to make a profitable use of the capital of other people.' Banks lend money to their customers at a higher rate of interest than that at which they borrow and the difference between the two constitutes their earnings. Thus, banks are the agencies for the collection of savings and their investment. S. E. Thomas observes aptly: "The bank is a great reservoir of loanable capital, into which flow countless small rivulets gathered from every source and direction, and from which flow many streams, small and large, destined to drive the wheels of industry and float the vessels of commerce. By assisting the entrepreneur, and by providing the sinews of trade and business, banks perform a productive function of the first importance."

✓ 3. Another function of considerable importance, wherever a bank is permitted by law, is to issue bank notes. As the issue of bank notes involves great many responsibilities, this function is mainly assigned to central banks which are under the direct control and authority of the Government.

4. The function of discounting bills undertaken extensively by commercial and exchange banks has greatly facilitated

commerce and production of goods. In the modern business world, sales and purchases are done on a credit basis and the sellers of goods usually draw bills of exchange on their debtors or accept latter's promissory notes in the belief that payment would be made at the future stipulated date. Such credit instruments as promissory notes, bills of exchange, hundies and other commercial papers have always to wait for a certain period of time before they can be encashed into metallic money. But a convenient source of realising ready money is provided by banks. The holder can present such credit instruments to his bank which will discount them at their 'present value,' that is, purchase them in cash by deducting interest at the current market rate for the time an instrument has to run. The bank in its turn waits for its maturity and realises the amount from the drawee mentioned in the instrument. This is a good source of investment and profits to banks.

✓5. Banks economise the use of metallic money by creating such media of exchange as cheques, bank drafts, etc., and provide cheap and convenient facilities for the remittance of money from one place to another. Remittances of money to distant places are made by sending bank drafts which are drawn by one bank upon its agencies or other banks. And by the institution of the Clearing House System, the mutual obligations of banks are cancelled and thus, a great economy of time and money is effected.

✓6. Banks also finance the import and export trade of a country by discounting and rediscounting the foreign bills of exchange. They also issue 'letters of credit' as a result of which the inconvenience of carrying money is avoided. Banks also facilitate the investment of capital in industries and thus, expedite the industrial and commercial expansion of poor and undeveloped countries.

✓7. Banks grant loans to traders and manufacturers to help them to tide over the period of financial stringency, as every businessman faces at least the want of cash during some periods, thereby stimulating the efficiency and continuity of

production. But bank loans are seldom made in cash. They are usually made by means of 'book credit,' a system under which the bank credits in the name of the borrower the amount asked for and the borrower is allowed to draw money by cheques at his convenience. Such credit deposits are called loanable capital. The creation of credit by a bank depends upon its cash reserves available at that time.

✓8. A well-regulated system of banking organisation by inspiring confidence in public promotes the saving habits of the people, helps the creation of effective capital for purposes of production. In the absence of banks people would have spent their small savings in the gratification of their immediate wants or hoarded them underground unproductively.

✓9. Banks undertake the safe custody of valuables and securities on nominal charges.

✓10. In addition to these important functions, banks perform a large number of agency services on behalf of their customers, such as the collection and payment of cheques, bills, and dividends and making of periodical payments to Life or Fire Insurance Companies on behalf of their customers.

11. Lastly, banks by virtue of their dealings inculcate business morality in people, and promote the virtues of honesty, promptitude and good faith among their clients. The educative advantages thus accruing from banks are of no mean importance.

Various Classes of Banks in the Indian Money Market

In view of the varied economic activities, every progressive country has found it much more suitable and convenient to institute different kinds of banks, each specialising in some particular channels of banking. But if one particular kind of bank undertakes to handle a particular type of business, it does not preclude it from taking other functions which are mostly performed by other classes of banks. As such, no demarcating line can be drawn as to the functions of any particular type of bank.

By a *money market* is meant all those institutions and

parties which deal in the 'borrowing and lending' of money. It refers to the entire region where borrowers and lenders of money are found connected with the *use of money*. Broadly speaking, various kinds of banks, discount houses, private bankers, bill-brokers are regarded as the constituents of a money market. The essential function of a money market is to supply to the manufacturers and traders with the requisite amount of capital and credit for purposes of production and exchange dealings. Another important function of the money market is to supply currency according to business needs of the country and to maintain the relative stability of the purchasing power of the monetary standard.

The money market in India consists of the following constituents:—

(a) The indigenous bankers and money lenders known by different names in different parts of the country—Shroffs, Marwaris, Sahukars, Mahajans, Boharas, Chetties, Seths, etc.

(b) Modern banking institutions modelled on European lines.

1. The Reserve Bank of India.
2. The Imperial Bank of India.
3. Joint Stock Banks.
4. Exchange Banks.
5. Co-operative Banks.
6. Savings Banks.
7. Industrial Banks.
8. Land Mortgage Banks.

Indigenous Bankers

Indigenous banking has been carried on from times immemorial and researchers have unearthed plenty of material to show that many of the banking practices of our age were followed by indigenous bankers, long before they were known to any country of the world. The indigenous bankers and money lenders performing a large variety of functions in respect of agriculture, trade and general banking are found scattered all

over the length and breadth of the country. The indigenous banker is called by various names—the Mahajan, the Bania, the Sahukar, the Shroff, the Seth, the Bohara. Different castes also conduct money-lending and banking in different provinces—the Marwaris and Multanis of Bombay, the Khattris and Aroras of the Punjab, the Chetties and Nattukotli chetties of South India and the Multanis and Rehtis of Sindh and Gujarat. Much controversy has arisen regarding the functions of an indigenous banker and a moneylender. Dr. Jain defines indigenous banker as “any individual or private firm which, in addition to making loans, either receives deposits, or deals in Hundies, or both, each of which functions clearly belongs to the province of banking” and restricts the term moneylender to “any individual or private firm which makes loans, but usually does not receive deposits or deals in Hundies.”

The Indian banking system plays a very important and useful part in the internal economy of the country. The indigenous moneylender renders invaluable services to the agricultural industry which is of vital importance to the Indian people. He advances loans in the form of money, corn, seeds, or cattle to cultivators on the security of the prospective harvest, movable or immovable property, or on the personal security of the borrower. As a matter of fact, in the absence of his financial help agriculture would not have been carried on. In rural areas, excepting some co-operative societies working here and there in some parts of the country, there is no other agency which can provide finance to agriculturists. The moneylender, known popularly as *Mahajan* or *Sahukar*, advances loans both in money and kind according to the needs of the cultivator on the understanding expressed or implied, that the cultivator would give his entire or part of the produce to his moneylender in the settlement of his dues and that he would in no case attempt to leave his moneylender until the last pie is paid off in the satisfaction of his claims. The moneylender on his part promises to accommodate his client for practically all his requirements—personal, social or industrial. This is known as the

Sabukari System. The village moneylender combines money-lending, shop-keeping and trading, and he is also found engaged in agriculture. In urban areas, the moneylenders provide finance to petty artisans and craftsmen either on the security of some immovable property, or if the amount of loans is small, on the personal security of the borrower at a fixed rate of interest, or on the condition that the producer would sell his finished commodity to the moneylender at the predetermined prices. Such moneylenders undertake both moneylending and trading. Scientifically speaking, moneylenders cannot be called bankers, for except lending of money, they do not undertake any of the other functions of a banker. He maintains a small amount of capital and lends it to the borrowers at the highest rates he can possibly exact from them. He advances loans for any and every purpose and is not particular whether they will be spent productively or extravagantly. He does not receive deposits of any kind and as such he can hardly inculcate the habit of thrift and economy around him. In short, he is a moneylender but not a banker.

The indigenous bankers, undertake a good deal of general banking business which is done by modern banks and play an effective part in financing internal trade and industry of the country. They carry on the functions of moneylending, receiving deposits on current and fixed accounts, allowing cash credits and issuing and discounting hundies of both kinds—demand and usance. But there are differences in detail between the functions of an indigenous banker and those of a joint stock bank. Indian banking is carried on by private individuals or families and not on the joint stock basis. The indigenous banker raises a very little amount of capital from deposits and withdrawals against deposits are in cash and not by cheques. Another important difference is found in the fact that the indigenous bankers carry on a variety of functions apart from the banking business. They combine banking, with trade and commerce acting as grain-dealers, commission agents, brokers, traders and industrialists. This combination of functions has

been regarded as one of the main causes of the decline of banking business of the indigenous bankers. There are also some other important causes which have contributed to the weakening of their banking business. Nevertheless it has been truly remarked that 'even at the present time the shroff continues to play an important part in the financial system of the country as an indispensable link between the Indian money market and the vast trading community.' He finances the agriculturist through local *sabukars* and moneylenders, the petty artisan and the small trader, assists in the movement of crops to consuming areas or to the ports, and distributes all kinds of goods in the country.

In respect of providing finance to agriculture, cottage industries and internal trade of the country, the part played by moneylenders and indigenous bankers is of enormous usefulness which can hardly be dispensed with at the present time when the absence of organised banks is keenly felt in India. The Central Banking Enquiry Committee, after investigating the weak features of the indigenous banking, have put forward many useful suggestions, the adoption of which must go a long way in improving the position of the indigenous banker and making him a useful member of the Indian banking system.

Imperial Bank of India

The Imperial Bank of India was formed in January 1921 by the amalgamation of the three Presidency Banks, namely the Bank of Bengal, the Bank of Bombay and the Bank of Madras which were founded in 1806, 1840 and 1843 respectively. The need for such a bank which would bring uniformity and stability into the Indian money market was felt long ago before its inception. The Imperial Bank of India is governed by a special Act known as the Imperial Bank of India Act, which defines the restrictions imposed and privileges conferred on the Imperial Bank and determines the fiscal relations it will have with the Government of India. The control of the Bank is entrusted to a Central Board of Governors with three local boards

at Calcutta, Bombay and Madras which look after the working of the business of the bank in their respective jurisdictions.

It is a commercial bank with private shareholders and competes to some extent with other banks. It inherited from its three predecessors certain functions as a bankers' bank, which, together with its increased responsibilities as the Government bankers, accounts for some of the existing restrictions imposed on its activities by its present charter. The important restrictions are:—

(i) The Bank cannot make any loan or advance—

(a) for a longer period than six months,

(b) upon the security of its own stocks and shares,

(c) on the original security of immoveable security.

(ii) The amount which may be advanced to any individual or partnership firm by way of discount on any personal security is limited.

(iii) The Bank cannot discount or advance on the security of any negotiable instrument of any individual or partnership firm payable at the town or place where it is presented for discount, which does not carry on it the separate responsibilities of at least two persons or firms unconnected with each other in general partnership.

(iv) The Bank is prohibited from transacting any business not specified in the Act, foreign exchange business being one of the excluded items.

The main functions of the Imperial Bank may be summarised as follows:—

1. It acts as a bankers' bank inasmuch as most of the banks in India keep their balances with it. It manages the Clearing Houses and supplies the necessary supervising staff. The business of the settlement of cross claims is carried on in the precincts of the Imperial Bank.

2. It advances money on the security of stocks, Government securities, debentures, goods or documents of title, accepted bills of exchange or pro-notes, etc.

3. It draws, accepts, discounts and sells bills of exchange

and other negotiable securities payable in India or Ceylon. It also deals in foreign bills of exchange with the sanction of the Governor-General in Council.

4. It receives deposits, securities for safe custody and undertakes other banking functions.

5. 'With a view to increasing banking facilities and fostering among the Indian people the habit of banking and investment, the Imperial Bank of India was placed by Government under a statutory obligation to open 100 new branches within the first five years of its inauguration. This obligation was duly fulfilled and 102 new branches were opened at places where there was already a branch of one or other of the Indian joint stock banks.'

The Bank acts as a fiscal agent to the Government of India in so far as it receives all moneys from the general public on behalf of the Government and keeps Government balances at the head-quarters and its branches. The bank has had no rights to issue notes as a result of which there remained a dual control over the credit and currency policy of India, the latter being controlled by the Government of India.

Exchange Banks

With the growth and development of import and export trade of India exchange banks came to be established to facilitate foreign exchange transactions. But as the foreign trade, in the initial stages, was mostly confined between India and England, the early exchange banks established in India were the branches of English banks having their head-offices in London. But later on, as the leading industrial countries of the world began to partake of our foreign trade on an increasing scale, many branch agencies of exchange banks situated in London or on the Continent or in the Far East and the United States have come to be established in India. Some of them carry on their considerable portion of business in India, e.g., the National Bank of India, the Peninsular and Oriental Banking Corporation and the Chartered Bank of India while others are doing only a small

portion of their total business in India.

The principal function of exchange banks is to finance the foreign trade of India. The exchange banks purchase and discount bills of exchange drawn by Indian exporters and they also collect on maturity the proceeds of bills drawn on Indian importers for goods purchased by them. They deal in drafts, telegraphic transfers payable in London and elsewhere outside the country. As the Imperial Bank of India has been prohibited by law to finance foreign trade except for its customers on a limited scale and as the Indian joint stock banks have neither the requisite resources nor the specialized training and knowledge to carry on that business, exchange banks are the sole monopolists as regards the financing of the external trade of India. In the branch of deposit banking they are a serious rival to our Indian joint stock banks. They have lately begun to take an important part in financing the internal trade at those places where their branches are located. In spite of such an immense amount of Indian trade being carried on by foreign exchange banks, it is an unfortunate instance in the career of Indian banking to have not a single bank doing purely foreign exchange business.

Indian Joint Stock Banks

It was in the earlier decades of the nineteenth century that the European merchants took the initiative of starting joint stock banks in India for financing the internal trade of the country. The purely Indian joint stock banks called the Oudh Commercial Bank was started in 1881. Since then the number of Indian joint stock banks has steadily increased in spite of serious reverses encountered many a time by the Indian banking system. During the year 1906, in the wake of the Swadeshi Movement, many Indian joint stock banks came into existence specially in Western India, the United Provinces and the Punjab. But the mushroom growth of banks without any specialized knowledge on the part of the directors and managers led to a serious banking crisis in 1913-14, when about fifty-five banks

went into liquidation, during the course of a single year, and spread panic in the public. Confidence thus being shaken, the foundations of many important and big banks shivered and tumbled down as a result of the onrush of the creditors. This banking crisis brought to light some of the very weak points of the Indian banking system and since then, efforts have been made to remove them.

The joint stock or commercial banks in India play an important part in mobilizing the savings of the country for their productive employment in the furtherance of trade, commerce and industry. They attract deposits from the people by paying different rates of interest on them. The commercial banks finance the internal trade of the country by discounting bills of exchange and collecting money from the drawee on their maturity. They also take part in the movement of produce from the village to the exporting ports and in the distribution of imports from the ports of entry to the distributing centres. The business of these banks so far as the agriculturists are concerned is usually confined to the larger landholders, the planting community and others who possess tangible and marketable security. They do not engage themselves in the financing of industries nor do they take part in the financing of foreign trade. Almost in every town of commercial and industrial importance there is found a bank or a branch bank doing a considerable business of banking. But still there are several urban areas which are not served by modern banking facilities.

Co-operative Banks

The co-operative banks were established in 1904 in order to provide a suitable financial agency that could relieve and save the poor cultivators and artisans from the financial embarrassments and the high rates of interest of the local money-lender. Co-operative banks afford banking facilities to the poor requiring credit for productive employment. The primary credit societies which are found working mostly in

rural areas of the country are at the bottom of the financial structure. The primary societies are financed by central banks (operating in a district or a smaller area) which can secure a larger amount of funds than a primary society by attracting a better class of investors in the towns. These central banks not only provide funds to primary societies but they also act as balancing centres inasmuch as they take over the idle balances for investment from those societies which can spare from their surplus funds. The chief function of the central banks is to provide finance to their affiliated primary societies. They receive deposits from the public and increase their funds by securing loans from the Provincial Bank to which all the central banks in a province are affiliated. It forms the highest stage in the co-operative financial structure. Besides the primary agricultural credit societies, there are also non-agricultural credit societies both with limited and unlimited liability which provide credit facilities to small traders, artisans, industrialists, labourers and clerks. The co-operative banks besides organizing credit play an important part in encouraging the habits of thrift, economy, honesty and sociability.

Savings Banks

Savings banks are chiefly meant to inculcate the habit of thrift and investment amongst the poor classes. Now-a-days it is the usual practice with the joint stock banks to open a separate account, called 'savings section' for doing this business. There are many co-operative thrift societies, particularly in the Punjab, which encourage savings among those for whom they are meant. But by far the most important agency which has stimulated thrift and savings among the smaller investors is found in the Post-Office Savings Banks wherein such a low sum as four annas can be deposited. As they are directly governed by the Government through the Postal Department, they naturally provide a very safe and secure means of investment. It is suggested that with an extension of Post-Office Savings Banks in those areas where they are not available at present much of

the slender savings of agriculturists, artisans, wage-earners, small merchants, traders and industrialists can be mobilized for the great profit of the country. There are no Industrial and Land Mortgage Banks worth the name in our country. These banks need a large amount of money for long term investments. Our industries need an early establishment of such banks to finance them. It will be a boon to the agricultural classes of India if land mortgage banks are opened on extensive scale.

Reserve Bank of India

The importance of a Central or Reserve Bank in the sound economic life of a country cannot be over-exaggerated. There exists a very close relation between the maintenance of financial stability and a central banking organization. It was after 1920 that the public opinion also got awakened to the necessity of having a central bank for the due performance of such important functions as note-issue, management of cash balances and regulation of foreign exchanges, etc. The Imperial Bank of India was set up in 1921 with the idea that it would rise to the full stature of a central bank, but it proved only a half-way measure. In 1925 when the Royal Commission on Indian Currency and Finance presided over by Hilton-Young was surveying the currency situation of India, the control of currency and credit was in the hands of two distinct authorities—the Government and the Imperial Bank of India whose policies could at times be widely divergent. The Commission were of opinion that this state of affairs should cease to exist, and if monetary stability was to be achieved, there was the necessity of a unity of policy in the control of currency and credit. The Hilton-Young Commission, therefore, definitely recommended the establishment of a Reserve Bank in India.

But owing to some sharp differences of opinion between the Government of India and the Legislative Assembly on the question of the management of the Bank, the Reserve Bank Bill introduced—in January 1927 could not get through the Assembly with the result that the Bill was eventually withdrawn

and was again introduced in the Legislative Assembly in 1933. In March 1935 applications for shares of the Reserve Bank of India were invited and by the middle of 1935 the Reserve Bank of India began its regular work of controlling and organizing the money market of India.

The Reserve Bank of India is a share-holders' bank with Rs. 5 crores as its original share capital, divided into 500,000 shares of Rs. 100 each, which are fully paid up. There are five registers of shares, namely Delhi, Calcutta, Bombay, Madras and Rangoon. The management of the Bank is entrusted to a Central Board consisting of 15 Directors—a Governor, two Deputy Governors, four Directors and one Government official to be nominated by the Governor-General in Council, and eight Directors to be elected on behalf of share-holders on the various registers. The cumulative dividend on shares has been fixed at $3\frac{1}{2}$ per cent per annum by the Governor-General in Council.

The Reserve Bank of India is authorized to carry on the following commercial business, viz., (i) to accept money on deposit without interest; (ii) to purchase, sell and rediscount bills of exchange and promissory notes with certain restrictions; (iii) to make loans and advances for not more than 90 days on the security of stock, funds, gold or silver, bills of exchange and promissory notes; (iv) to make advances to Local Governments for a period of not more than three months from the date of the making of the advance; (v) to issue demand drafts made payable at its own offices or agencies; and (vi) to borrow money for not more than one month for the business of the bank.

The central banking functions of the Reserve Bank are to accept money on account of the Secretary of State in Council, Governor-General in Council and Local Governments and to carry out their exchange, remittance and other banking operations including the management of public debt and the issue of loans on conditions that may be agreed upon. The Bank has the sole right to issue notes and this right is now exercised by the Issue Department which has taken over from the Governor-General in Council the liability of all the currency notes of the Indian

Government. The Issue Department is kept separate and wholly distinct from the Banking Department and its assets are not subject to any liability other than the liabilities of the Issue Department. The assets of the Issue Department consist of gold coin, gold bullion, sterling securities, rupee coin and rupee securities equal in value to the total amount of the liability.

The Reserve Bank of India now controls the money market by acting as a bankers' bank to the Government and the other banks in the country and by taking over the balances and cash reserves of commercial banks and by granting them loans and rediscount facilities. It helps to bring out the necessary expansion and contraction of currency in consonance with the requirements of trade and business at any given time.

A special agricultural credit department has been created with the Bank the main function of which is to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks or any other bank or organisation engaged in agricultural credit. The Imperial Bank of India is the sole agent of the Reserve Bank at all places in British India where the Imperial Bank has a branch which was in existence at the commencement of the Reserve Bank of India Act, 1933.

The Reserve Bank is not allowed to engage in trade or otherwise have a direct interest in any commercial, industrial or other undertaking. It cannot purchase its own shares or of any other bank or company and cannot grant loans upon the security of such shares. It cannot advance money on mortgage of or otherwise on the security of immovable property or documents of title relating thereto, or become the owner of the immovable property, except so far as is necessary for its own requirements for carrying on business, etc. It is prohibited by law to allow interest on deposits or current accounts. Thus, the Reserve Bank does not enter into competition with the activities of the commercial banks or other credit agencies and its main functions are almost solely confined to dealing with the banks and the Government.

THE TRADE OF INDIA

Growth of Indian Trade

Many centuries before the Christian era, the manufactures of India were famous and highly valued throughout the civilized world. Trade and commerce in textile fabrics and rich embroideries was in a flourishing condition and there are ample evidences to show that a regular mercantile traffic both by land and by sea was carried on between India on the one hand and the Eastern and Western countries on the other. The principal articles of export were textile manufactures, pearls, diamonds, ivory, spices, drugs, perfumes, etc., while the imports consisted of gold, silver, brass, copper and tin. Ships plied extensively from the Western coast of India to the Western countries and a brisk coastal trade was also maintained between the different seaports of India. As early as the seventh century B. C., India had commercial relations with most of the leading countries of the world.

The mercantile traffic by sea, however, was gradually abandoned after the tenth century. But on account of the establishment of good means of communication through the North-West Frontier the overland trade of India showed a considerable improvement. Moreover, with the opening of good roads during the Mohammadan period and the utilisation of the river-systems as a means of transporting agency together with the patronage extended by the nobility and the ruling chiefs specially in the production of luxury goods, the internal trade of the country showed a considerable increase in value and volume.

The revival of foreign maritime, however, took place in 1498 with the classic discovery of the sea route round the Cape of Good Hope. In the succeeding centuries the leading maritime nations of Europe competed with one another for appropriating the largest share of the Indian commercial trade. But by the end of the eighteenth century the English East India Company was completely successful in driving other companies

out of the competitive arena. In the nineteenth century, the foreign trade of India showed a considerable expansion due to the invention of steamships, opening of the Suez Canal in 1869, the construction of a network of roads and railways in India and the increased political security afforded by the newly-established Government for the commercial development of the country. But the direction and the nature of India's foreign trade underwent a considerable change, a change which proved in many a respect detrimental to the country as a whole. India which had hitherto for centuries exported manufactured products to all the countries of the world gradually became, due to economic disabilities, dependent for those very articles upon the foreign industries. India became an exporting country of raw materials and food materials to feed the growing industries and population of the industrial countries of the West and she has not been able to recoup so far, her former position of unrivalled supremacy.

But whilst India is pre-eminently an agricultural country, she ranks as one of the great industrial countries of the world. Her manufacturing industries are few in number and are concentrated in a few particular areas but they are of great importance. The largest is the cotton textile industry while next in importance is the jute industry. The metallurgical industry is of a more recent growth while the sugar industry has been grown by leaps and bounds after 1932. The growth of these and other important manufacturing industries will affect in an increasing degree the general prosperity of the people and will solve the question of middle class unemployment. The industrial development of the country will yield a large amount of revenue to the State and will enrich the country in so many other ways.

No statistical estimate of the total volume of inland trade cleared by roads, railways and rivers can be given. Prof. Shah holds that the value of inland trade is above Rs. 2,500 crores but it is regretted that we have to depend largely on foreign countries for the supply of even our absolute necessities of life.

To develop the Indian industries and to check the cut-throat competition of the cheap foreign made articles, the public opinion in India became overwhelmingly protectionist. The Fiscal Commission also recommended the adoption of a policy of protection on scientific and discriminative lines. It is necessary to "nurse the baby, protect the child and free the adult". Our industries are still in an infant stage and need protection. The Tariff in India consisted mainly of revenue duties but in recent years, on the recommendations of the Tariff Board, the Government of India has granted protection to iron and steel, paper, textile, sugar and match industries by levying the necessary import duties.

The Ottawa Pact of 1933 committed India to a policy of Imperial Preference and granted a substantial preferential treatment to some of the imports from the United Kingdom while our goods were admitted at lower rates of duty in the British Empire countries. Opinion in India has been strongly against the Ottawa scheme and in the last session of the Assembly, the members refused to renew the agreement because India stands to lose a great deal by any policy of Imperial Preference. India's present industrial needs want protection and not a policy of Imperial Preference. The country will gain by having bi-lateral commercial treaties with foreign countries instead of preferential duties on import and export trade. The Indô-Japanese Trade Agreement and Lees-Mody Pact mark "a further stage in the trend of economic intercourse from competition to agreements."

The total value of foreign merchandise into British India during 1934-1935 amounted to Rs. 132 crores and that of exports to Rs. 155 crores, leaving a visible balance of trade in favour of India. "The mere fact that the figures of the foreign trade of a country have grown is, however, not in itself a proof of a corresponding growth of prosperity. The nature of the commodities exchanged must, therefore, be carefully examined before arriving at a conclusion regarding the real advantages of foreign trade."

Chief Characteristics of the Foreign Trade

The important characteristics of India's foreign trade may be briefly mentioned as follows:—

✓ 1. The first important feature of India's foreign trade that can hardly escape anybody's notice is that her principal exports consist of food materials and raw materials while her imports consist almost wholly of manufactured articles. She exports raw cotton in huge quantities to Japan and the United Kingdom but only to import it in the form of manufactured cotton piece-goods. She exports oil seeds to European countries only to get them back in the form of purified oils. Metallic ores are exported but pure metals are imported. Hides and skins are sent abroad for treatment. This shows the predominance of agriculture and the acute dependence on foreign countries for the supply of machinery and other manufactured goods.

Kinds of goods	P. C. of Exports 1934	P. C. of Imports 1934
A. Food and drink ..	18.3 per cent	10.7 per cent
B. Raw materials ..	43.4 „ „	5.1 „ „
C. Manufactured goods	35 „ „	80.2 „ „
D. Miscellaneous ..	3.3 „ „	4 „ „

2. Another important feature is that under normal condition of trade and commerce our exports are in excess of imports, so that the balance of trade is always favourable to India. The excess of exports is almost made obligatory on the part of India due to her political subjection and having contracted debts in foreign countries for a variety of purposes. A large portion of the excess is accounted for the settlement

of Home Charges which the Government of India have to incur in England. A large payment has also to be made for the services rendered by the foreign bankers, European shipping, insurance companies, etc., in the movement of articles of merchandise from and into India. However, a portion of the excess is imported in the form of gold and silver.

✓3. As a result of the invention of steamships making possible the carriage of cargoes at cheap charges, the sea-borne trade of India has come to occupy a very large and prominent position in the foreign trade of India, her overland trade over trans-frontier countries having paled into insignificance.

✓4. Although India maintains her external trade with most of the important countries and islands of the world, yet the bulk of our foreign trade is carried on with the United Kingdom. Out of the total imports in 1934-35 about 40 per cent imports into India came mainly from the United Kingdom and 32 per cent of exports were taken by the United Kingdom.

✓5. In spite of an extensive foreign trade it is a gloomy feature to observe that about 98 per cent of the sea-borne trade is carried on by non-Indians in foreign ships and thus, a highly lucrative field of investment, employment and earnings is taken away from the hands of Indians. As late as the beginning of the nineteenth century, Indians plied their own ships between different seaports of India and carried cargoes to European countries. The development of Indian shipping industry is desirable in the interest of Indian foreign and coastal trade.

Chief Articles of Import

The following table gives an idea of the principal articles imported into India:—

IMPORTS OF MERCHANDISE

(in lakhs of rupees)

Articles	1930	1935	Percentage on total imports in 1934-35
Cotton and cotton goods ..	31,64	27,04	20.44
Machinery and mill work ..	14,34	12,63	9.55
Metals and ores	15,92	11,37	8.60
Oils	10,92	6,97	5.27
Vehicles	7,30	6,60	4.99
Instruments, apparatus and ap- pliances	4,77	4,72	3.57
Wool, raw and manufactured ..	2,31	3,86	2.92
Artificial silk	3,02	3,59	2.72
Silk raw and manufactured ..	2,99	3,37	2.55
Dyes	2,59	3,07	2.32
Hardware	3,60	3,05	2.31
Chemicals	2,61	2,92	2.21
Provision and oilman stores ..	4,87	2,89	2.18
Paper and pasteboard ..	2,86	2,72	2.06
Gram, pulse and flour ..	2,81	2,66	2.01
Liquors	3,31	2,35	1.78
Sugar	10,96	2,10	1.59
Rubber goods	2,58	2,05	1.56
Drugs and medicines ..	1,93	1,91	1.45
Glass and glassware ..	1,64	1,32	1.00
Other articles	31,82	24,85	18.93

In the wake of trade depression that overshadowed the world in 1929, India could not escape the shock as the total value of her external trade suffered an enormous contraction. According to an expert authority 'the total value of world trade in the third quarter of 1932 was only about one-third of the corresponding period of 1929.' The reader can himself estimate, by comparing the value of imports in 1934-35 as against those of 1930-31, the extent of the fall in our imports.

Cotton manufactures

Cotton manufactures and yarn are imported mainly from the United Kingdom and Japan, the latter proving a serious rival to the former in the Indian market. Imports of grey goods amounted to 298 million yards of which 194 million yards were supplied by Japan. The imports of twist and yarn were valued at Rs. 310 lakhs while cotton manufactures were valued at Rs. 224 lakhs. Of the total quantity of piece-goods imported into India, Bengal received 31 per cent, Bombay 28 per cent, Sindh 25 per cent, Madras 7 per cent, and Burma 9 per cent. The imports in cotton goods have declined considerably due to the extended use of the Indian mill-made articles by the people. The Khadi Movement has also provided a fillip to the neglected handloom weaving industry with the result that about one-fourth of the total demand for cloth is met by this industry.

Metals, Machinery and Hardware

India imports every year large quantities of iron and steel notwithstanding the large output from our mines. Machinery for cotton, jute, sugar, paper, electrical plant, sewing machines, hardware, etc., are imported from the United Kingdom, the U. S. A. and Germany. The number of motor cars imported in the year 1934-1935 was 14434. 6311 cars were imported from the United Kingdom, 5564 from the U. S. A., 2057 from Canada, and the rest from Italy and France. The number of cars on Indian roads is steadily increasing.

Oils

Mineral oils are mainly imported from the United States, Russia and Persia. The share of the United States which was about 60 per cent of the total imports has now considerably declined while that of Russia and Persia is on the increase. Imports of kerosene oil amounted to 69 million gallons while fuel oils amounted to 110 million gallons.

Silk, Wool, etc.

Artificial silk is imported mainly from Japan and its consumption in India has increased due to its cheapness. Piece-goods made entirely of artificial silk amounted to 67·6 million yards while that of pure silk amounted to 33 million yards. Imports of raw silk and yarn were 2217 lakh lbs., that of artificial silk yarns were 1660 lakh lbs. The principal suppliers of silk both raw and manufactured are China, Japan, Italy and Switzerland. Wool, raw and manufactured is mainly imported from Australia, Persia and the United Kingdom. Japan for the first time in 1934-1935 captured the major share of the trade in woollen piece-goods, her share being 7·3 million yards as compared to the United Kingdom's share of 4·2 million yards.

Sugar

The imports of sugar have decreased considerably both in value and volume due to the increase in the number of sugar factories in India, since the time protection has been given to this industry against foreign competition. In 1924-1925 the value of the imported sugar was Rs. 21 crores while at present it is below Rs. 2 crores. India is the largest producer, importer and consumer of sugar in the world. The new Excise Duty of Rs. 2 per cwt. it is feared, will affect the industry very adversely.

Liquors

The total imports of wines were 4·9 million gallons while spirit to the extent of 3 million gallons was imported. The consumption of foreign liquors in India is increasing very rapidly.

Drugs, Paper and Chemicals

The imports of these articles is on the increase in spite of many Indian firms which have started the production of these commodities.

Chief Articles of Export

The following table shows the principal articles exported from India.

EXPORTS

(in lakhs of rupees)

Articles	1931	1935	Percentage on total exports in 1934-35
Cotton (1) Raw	46,72	34,99	23.15
(2) Manufactured	5,21	2,64	1.75
Jute (1) Raw	12,88	10,87	7.19
(2) Manufactured	31,89	21,46	14.20
Tea	23,55	20,13	13.32
Food-grains	29,88	11,84	7.83
Oil-seeds	17,86	10,54	6.97
Metal and ores	7,94	5,91	3.91
Leather	6,39	5,47	3.63
Lac	3,13	3,29	2.18
Hides and skins	5,46	3,13	2.07
Wool, raw and manufactured	3,23	2,19	1.47
Oil cakes	2,08	1,96	1.30
Paraffin wax	2,81	1,91	1.27
Wood and timber	1,41	1,10	.73
Fruit and vegetable	79	1,07	.71
Tobacco	1,03	81	.54
Other articles	8,93	11,70	7.78

The comparative figures of two different periods given above will show that the total value of our exports is now much less than what it was in 1930-31 before the recent economic depression set in. Besides a reduction in the quantum of goods in our export trade, the depreciated value of money has also been responsible for this huge fall in the value of exports.

Jute, raw and manufactured

Raw jute is exported to Germany, the United Kingdom, Italy, France and the U. S. A. while jute manufactures, consisting mainly of gunny bags and cloth, go to the U. S. A. Australia, Argentine and very small quantities to other countries. The total exports of gunny bags has increased from 402 million to 423 million bags while the total yardage of gunny cloth has increased from 1053 million yards to 1063 million yards. The total exports of raw jute amounted to over 1,420,000 tons.

Cotton, raw and manufactured

The largest proportion of our cotton goes to Japan, China, the United Kingdom and Italy. The export trade in yarn came to a close, owing to the Japanese spinning industry. Cotton manufactures are, however, exported to Persia, Afghanistan, Ceylon, Iraq, etc. Japan always purchases about 2,010,600 bales of cotton annually while the United Kingdom's import of cotton from India has fallen considerably. A vigorous policy of industrialisation with all the facilities that go to expedite the successful development of an industry is sure to promote the export trade in cotton piece-goods.

Grains, pulses and flour

India being an agricultural country exports rice (1,744,000 tons, about 90 per cent) wheat, (21,000 tons, 7 per cent) pulses, (1,12,000 tons) maize, barely, etc., in small quantities to many countries such as the United Kingdom, Germany, Japan and China. The export trade of wheat is losing ground in the Western countries due to the increase in production of these commodities in other places and secondly due to many restrictions that have been put by many countries to check the imports of food grains.

Tea

The largest customer of tea is the United Kingdom, taking about 90 per cent of the tea exported from India; our other

customers are Canada, Persia, New Zealand, Australia, the U. S. A., etc. Exports to the United Kingdom during the year 1934-1935 amounted to 288.5 million lbs. valued at Rs. 18 crores.

Oil seeds

The more important varieties of seeds exported are linseed, groundnut rapeseed, castor, sesamum and cotton seed. The total exports are now declining and have come down to 8,75,000 tons as compared to 1,124,000 tons in 1933-1934. This is a good sign as India needs her oil seeds for herself.

Hides and skins

The total shipment of raw hides amounted to 22,600 tons. The trade in raw skin is declining.

Metal ores and lac

The total exports of ore amounted to 5,15,000 tons. Manganese and pig-iron are the chief ores exported. Shellac is exported in small quantities.

BALANCE OF TRADE AND ACCOUNTS

The visible balance of trade always remains in favour of India. It was Rs. 75.5 crores in 1934-35. Large quantities of private treasures chiefly gold are exported every year. The true balance of trade cannot be estimated by the exports and imports of merchandise alone. Our visible excess of exports has to pay for many invisible imports such as Home Charges, etc. The following balance of accounts should be taken into consideration to arrive at a real balance of trade during any particular year.

Exports (Credit side)**Imports (Debit side)**

- | | |
|---|---|
| 1. Value of merchandise. | 1. Value of merchandise. |
| 2. Private borrowings in other countries. | 2. Payment of interest and principal. |
| 3. Government borrowings abroad. | 3. Payment of interest and principal by Government. |
| 4. Private remittances of money for meeting expenses of schools, mission houses and churches. | 4. Remittances to meet the expenses of Indian students and tourists abroad. Money sent by merchants and others for their dependants in foreign countries. |
| 5. Expenses by tourists in India coming from other places. | 5. Home Charges—pensions, pay and furlough allowances of servants abroad, expenses of India Office, Capitation Charges and store purchases. |
| 6. Miscellaneous receipts of money from foreign countries. | 6. Commissions and premiums paid to banks and Insurance Companies. |
| | 7. Freight charges paid to foreign ships. |
| | 8. Miscellaneous payments to foreign countries |

The Direction of India's Trade

It has been already pointed out that the United Kingdom has been the greatest customer in the import and export trade of India. During years, preceding to the Great War, the share of the United Kingdom in the import trade of India was formidable amounting to about 64 per cent of the total imports. But during and after the War the share of the United Kingdom declined considerably in face of the competition from the industrially advanced countries like the United States, Germany,

Japan and Belgium. The extent of the fall can easily be realised from the fact that in 1931-32 the percentage share of the United Kingdom in our import trade was 35.5 only. But as a result of the Ottawa Agreement entered into by the Government of India with His Majesty's Government whereby some of the British products are admitted into India at preferential rates, the United Kingdom has been successful to a certain extent in establishing her markets again. Germany, the United States, Italy, and Belgium are losing their Indian market. On the other hand, Japan is trying to dominate our market threatening the very existence of the industrial enterprises in India. Out of the important total imports in 1934-35, 40.6 per cent came from the United Kingdom, 15.7 per cent from Japan, 7.6 per cent from Italy, 2.4 per cent from Kenya and Zanzibar, 1.6 per cent from Belgium, 1.4 per cent from Java.

On the export side, the United Kingdom is the largest purchaser of Indian goods. In recent years her share in our export trade is increasing. But our exports to other countries have declined during the same period. The percentage share of the United Kingdom in our export trade now amounts to about 32, of Japan to 16, of the United States to 9, of Germany to 5, and of France to about 4.

Internal Trade

Like the United States of America and China, India comprises an extensive area of about 1,800,000 square miles and offers an immense scope for internal trade. Internal trade of the country may be classified into two groups: (1) Inland trade, and (2) Coastal trade.

Inland Trade

In view of the continental divisions of the country, her huge population, her excellent physical features, diverse climatic conditions and vast natural resources, the inland trade of the country both in volume and in value far outweighs the external trade of India. Unlike foreign trade, inland trade is mainly

carried on by Indians. The inland trade is mainly concerned with supplying the surplus produce of one part of the country to another requiring the services of a large chain of middlemen, traders, merchants, shopkeepers, village traders and hawkers. Mainly, as a result of the peace and security afforded by the stable government, opening of arterial and feeder roads, trunk and branch railways, development of credit and banking facilities, construction of great irrigation works for ensuring the steady harvests of the agriculturists and the utilisation of the productive resources on modern organised lines, the inland commerce of the country has shown an immense increase during the last fifty years. Although no accurate and reliable statistics are available for ascertaining the volume and value of internal trade, yet it is estimated to be at least five or six times more than the foreign trade of the country. There lies an immense scope for the development of inland trade with the specialisation in agricultural production, industrialisation of the country and improvements in the various means of communication and transport.

Coastal Trade

The coastal trade carried on between the different seaports on the extensive coastline of India is of no mean importance. The coasting trade is mostly concerned with the transference of agricultural and industrial products, and with the distribution of imported articles from one port to another in British India or Native States. The total coastal trade in 1934-35 was valued at about Rs. 270.5 crores. The coastal trade between Burma and other ports of India, particularly Calcutta, Bombay and Karachi is of special importance inasmuch as trade by land is hampered owing to the impenetrable mountains and forests existing between Burma and India. By developing harbour facilities, wherever they are not available at present and by building up an Indian Mercantile Marine, the coastal trade can be developed to greater dimensions.

To avoid unfair competition, e.g., rate, cutting, grant of

rebates, etc., and to induce Indian capital being invested in coastal shipping, the Government of India is enacting the Coastal Traffic Act of 1937. It will create a strong Indian Mercantile Marine.

CHAPTER XIX

THE PROBLEM OF DISTRIBUTION

What is Distribution?

In our preceding book, it has been shown that in order to produce wealth the producer employs certain factors of production. Now, all those agents which have united collectively to produce that wealth expect to be rewarded by a share of it.

There must be some laws or principles according to which the various agents of production should receive their remuneration in their productive activity. The principles upon which this wealth is distributed, apportioned or shared among the various factors of production, viz., land, labour, capital, organisation and enterprise which collaborate in its production go by the name of the Laws of Distribution. "The economics of distribution, it is sometimes said, explains people's incomes. The assertion is broadly correct; but the economics of distribution is concerned primarily, not with *incomes*, but with the *earnings* of the several factors of production."

(Chapman)

But the distribution of the wealth produced among the different factors of production in modern times of industrial organisation is not so easy as it might look to a layman who would at once speak that each factor should be rewarded in proportion to its sacrifices. In fact, there is the rub, because it is not possible to separate the result of each individual's sacrifice from that of the entire group. Owing to group production where several agents of production differing both in quantity and quality co-operate in bringing about a common result, it is too difficult to determine the individual's contribution to final result. In the case of a peasant proprietor who

conducts every process of cultivation himself, the question of distribution does not arise as whatever remains after making allowance for the depreciation of his implements, stocks and capital, he is the rightful claimant of that. But in ordinary business of life we seldom come across with such an isolated type of productive activity. In a modern organised factory with a minute division of labour, all the combined resources of landowners, capitalists and labourers are used by an organizer who directs the production of wealth and rewards each factor without actually knowing its exact contribution to the final result. It is only after the Industrial Revolution that the problem of distribution has occupied a very prominent place in our economic studies. Various theories have been propounded to solve the conflicting problems of distribution but, in an elementary book of principles, it is hardly possible to write any thing on these intricate and lengthy controversies.

What is to be Distributed?

Obviously, nothing more can be distributed than what is produced by the joint efforts of all the agents of production. Persons possessing a certain quantity of labour and capital work upon the natural resources to produce wealth but before the total wealth produced in an industry is available for distribution among the factors that have united in its production, it has got to meet two other claims which are equally important and noteworthy, viz.

1. Replacement of capital (both circulating and fixed) used up in the course of manufacturing a certain commodity.
2. Taxes levied by the State or the local authorities such as municipalities, etc.

A concrete example will better illustrate the meaning of what has been spoken above. Suppose a cultivator with a certain amount of labour and capital harvests a crop of, say Rs. 1,000 a year. Before this sum is available for distribution among those who have contributed in its production, he must deduct the price of the grain which he has used for seed other-

wise no money for seed shall be available for future crops. Again, he must cover the price of the wear and tear of the stock that has been used in the production of crops. If he fails to provide for the replacement of his implements and live-stock out of his total produce, a time must come when, in the absence of his stock which has been gradually worn out owing to its constant use, his productive activities will come to an end. As for example, if he has purchased a bullock for hundred rupees which expects to yield a service to the cultivator for ten years, he must set aside ten rupees annually so that after the termination of that period he may have the ready money to replace the old bullock by a new one. Similar is the case with his implements, buildings, wells, fences, etc., which deteriorate either through use or through the destructive agency of time. Such a fund which is set aside to make good the deterioration of the fixed capital goes by the technical name of "depreciation fund." Besides these amounts, he must also deduct the amount of tax which he has to pay to the tax-levying authorities. Thus, after making allowances out of the 'gross product,' viz., Rs. 1,000, for the replacement of the circulating capital (seed) at Rs. 90, for the depreciation of the agricultural stock at Rs. 35, and for the payment of taxes at Rs. 15, there remains a net amount of Rs. 860 available for distribution among those who have co-operated in the production of the crop. The balance which is available for distribution is called the 'net product' of the industry. The above may be represented as follows.

Gross Product Rs. 1,000

Replacement of circulating capital Rs. 90.	Depreciation Funds Rs. 35.	Taxes Rs. 15.	Net Product Rs. 860 available for distribution.
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It must have been clear to the students by now that the amount which can be distributed as income among those who have taken part in any industrial enterprise is the 'net product'

of the industry. In this way by calculating the 'net products' of the different industrial enterprises, we can find out the total net product which is available for distribution among all the agents of production in a country. The total net product created by the productive efforts of community in a fixed period of time is generally called the *National Income* or *National Dividend*. "The labour and capital of the country, acting on its natural resources, produce annually a certain net aggregate of commodities, material, and immaterial including services of all kinds. This is the true net annual income or revenue of the country." The amount of national income determines the extent of consumption of the people living within a community—the greater the amount of National Dividend available within a community, the fuller is its consumption and *vice versa*.

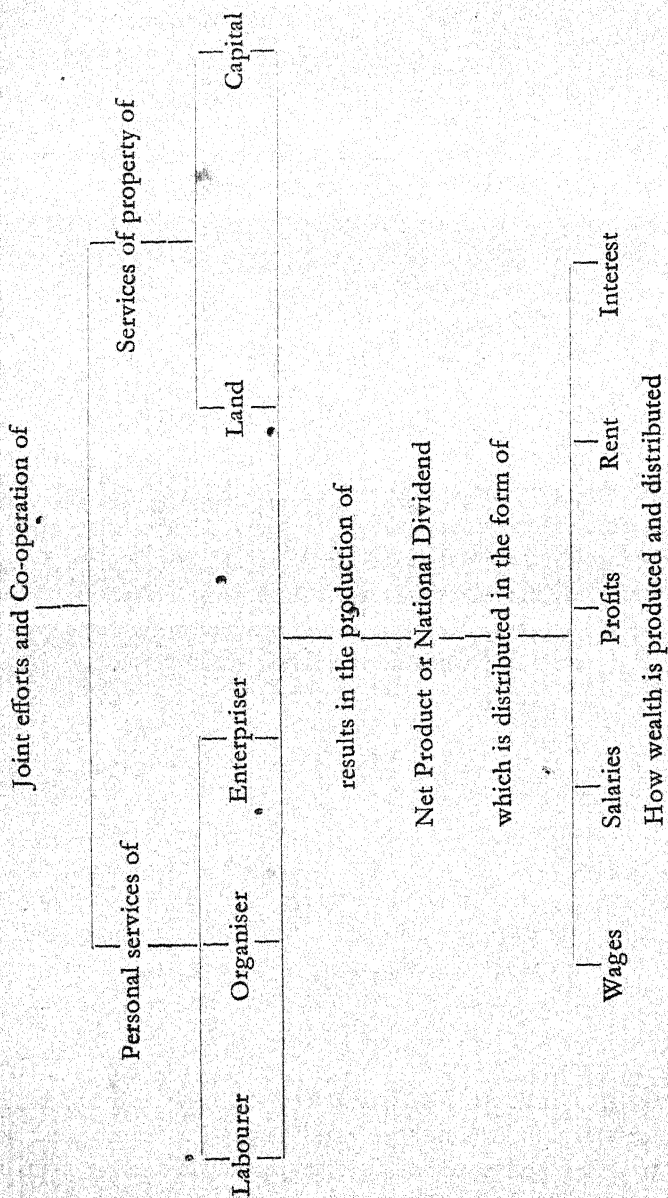
The Shares in Distribution

While studying production, we have shown that land, labour, capital, organisation and enterprise—all factors co-operate in the production of wealth and as such they are entitled to get a share out of the 'net product' of an industry in proportion to their respective contributions. A good many writers on the subject have expressed disharmonious opinions in respect of those who are the real contributors to wealth production. Some think, as Penson remarks aptly, that those who can be seen taking part in the work of the farm, the factory, or the office, are the only contributors; others consider that those should be included who have in any way assisted either by personal service or by placing their property at the disposal of the workers. But we must remember that if any one of the services which has either directly or indirectly contributed to the final result is not remunerated, it would cease to be employed. All the incomes which are derived from the net product of the business are payments for service, and without service rendered there is no income. Thus, the share that accrues to land is called 'Rent;' the share that accrues to labour is called 'Wages;' the share that accrues to capital is called 'Interest;' the share that accrues to

'organisation' is called 'Earnings of Management' or 'Salaries;' and the share that goes to enterprise is called 'Profit.' It is with these different forms of shares that the problem of distribution is concerned, and while analysing the system of distribution in the following chapters we shall consider separately the principles underlying the determination of each of these shares.

Different agents of production which render their services in the production of wealth and their corresponding remuneration are shown in the diagram on page 416.

In the same diagram, organisation and enterprise have been divided into separate heads because sometimes the entrepreneur acts in more than one capacity. In a modern type of joint stock company which is the most typical form of industrial organisation, the shareholders who are the real undertakers of risk render a twofold service. The management of the industry is being assigned to the salaried managers of good organising capacities, whilst the shareholders contribute capital for which they get interest and for the risk which they undertake, they receive profits in the shape of dividends which are declared half-yearly or annually. It may be said here, therefore, that the income may be derived from more than one source. An individual may derive his income by providing one single factor or more than one factor in which case his income will depend upon the number of types of services he has rendered and a separate treatment of his income due to each factor will have to be made. For example, the income of a manual labourer consists exclusively of wages while that of a peasant proprietor who owns his own land, employs his own capital, organises his farming operations and undertakes all risks consists of rent, interest, salary (earnings of management) and profits. Similarly, a managing proprietor may be said to have an income composed of interest, salary and profits since he provides not only capital but organisation and enterprise also. Although all those who derive mixed income by getting more than one share from the different types of services, seldom care to draw



any distinction between its component parts, yet all these various forms of income are quite distinct from one another and demand separate treatment.

General Theory of Distribution

Now we come to the more difficult question of how the net product is distributed among the various factors of production. On what principles the different factors are taken into service and evaluated? To deal in a more practical way, distribution takes place somewhat in the following manner. As a result of the demand for commodities by a community, indirectly there is also a demand for the various factors of production because without a close combination and co-operation of these factors no production is possible. On this strength the enterpriser who is the initiator of the productive processes employs the services of the different factors of production at rates determined by the interaction of the forces of demand and supply. The enterpriser, before the actual initiation of his business, studies the market conditions and calculates how much and at what probable cost he will be able to produce and at what price he will be able to sell, thereby finding out the 'net product' of his industry. If he expects a margin of profit he strikes bargains with the various owners who supply the factors of production, taking care that what he contracts to pay them will leave a sufficient margin for the remuneration of his own services. These contractual incomes to the various suppliers of the factors of production are, paid by him in instalments, and are not affected by what the net product is going to be at the end of the year. But no provision has been made by the enterpriser for his own services. If the residue, after meeting the claims of the factors entered into contract, results in a surplus, it is the *reward* of his enterprise, and if on the other hand, the net product is less than the sums paid out to the factors employed, the loss would be borne by him.

Having explained the position of the enterpriser in relation to the other factors of production, we are now in a position to

answer the question raised in the beginning of this section, viz., on what principles the services of the factors of production are evaluated? Although the services rendered by the different factors are quite distinct, yet they resemble commodities in this respect that they, like so many commodities, have their market prices which are determined, like the prices of articles, by the interaction of the forces of demand and supply. The enterpriser cannot dictate the reward of any particular service; he, like an ordinary buyer in the market, has a maximum price for each service beyond which he will not exceed and the seller, viz., the owner of the factor has a minimum price below which he will not prefer to give his service. The maximum of the enterpriser will be determined by the marginal output or the marginal productivity of the agent he employs, i.e., the product of the final addition of the factor represents the demand price of that factor. On the supply side, the remuneration of each factor of production tends to equal its supply price. Between these two limits, like the price of a commodity, prices of each agent of production will be determined at the point where equilibrium is reached according to the relative strength of demand and supply existing at the time. So at any given time or place, the price paid for the service of any agent measures both its marginal productivity and its marginal supply price.

CHAPTER XX

RENT

The Popular Meaning of Rent

In popular language, the word 'Rent' implies the periodical payment made by the tenant to the landlord or owner for the use of land, or houses and other loanable material agents such as machinery, forests, mines, and fisheries. The popular conception of rent is too vague and lacks scientific precision. In everyday language, the whole of the income accruing say, from the ownership of a house is erroneously termed as rent. The so-called rent can be divided by an economist into two distinct elements. The payment for the use of a house includes not only the amount paid for the site of the building which is known as economic rent; but it also includes payment for the investment of capital in the form of building and this latter return is not rent but interest. In this case, probably the proportion of income going to the house owner in the shape of true rent for the site is much smaller than the amount realised by him in the shape of interest, depreciation allowances, remuneration for risks, and profits for enterprise and management on his capital invested in the building. Similarly, a cultivator may think that he pays so much rent for his farm, not realising that only a part of that is really rent, the rest is interest on the capital which has been invested by the landlord in farm-buildings, wells, drainage, fencing, etc.

Economic Rent

In Economics, however, 'rent' is used in a different and more precise sense. It is the income, either in money or in kind, accruing to the owner from the productive employment

of any natural agent of production. Rent is the payment for the use of the original and indestructible powers of the soil and is measured by the *differential advantages* or *surplus* enjoyed by the superior land and other objects, the supply of which cannot be increased at human will, over the less favoured ones. As Marshall observes, "the income derived from the ownership of land and other free gifts of nature is commonly called rent." It should be remembered that all the income resulting from the improvements made in or upon land by the landowners is called 'interest' in contradistinction to 'rent' which is purely a return from a natural agent of production. In the economic sense, it matters little whether it is paid by the tenant to the landlord, or by one person to another. As a matter of fact, the owner of the land may himself put it to some form of productive use, or may let it out to a tenant. In either case, he realises an income which is known as 'rent.'

Economic rent is the producer's surplus which land and other natural gifts yield over cost. Let us illustrate the point in question with a concrete example. It is a common experience of all that lands vary in productivity owing to differences in natural *fertility* and *situation*. Suppose three plots of land X, Y and Z of equal size are cultivated by different tenants of similar ability. Let us further suppose that, with the same amount of expenses say Rs. 50 (which exclude rent but include wages for their labour, depreciation allowances for their cattle and fixed capital, etc., and normal profits for their enterprise and management) the plots yield a produce amounting to Rs. 150, Rs. 100, and Rs. 50 respectively. The surplus after meeting all the expenses of production (i.e., Rs. 50) on the respective fields is as follows: X field yields a surplus of Rs. 100, Y field yields a surplus of Rs. 50 and Z field yields no surplus, as its produce just pays the expenses of production and no more. Now, the two former fields enjoy a differential advantage or surplus of Rs. 100, and Rs. 50 respectively over the Z field which, in Economics, is called the 'no-rent' land or land on the 'margin of cultivation.' It cannot afford to pay any rent for

the produce obtained from it just meets its expenses of cultivation whereas the cultivators of X and Y fields can hand over the surplus of Rs. 100 and Rs. 50 respectively to the landlord from whom they have taken land on hire. This additional amount or surplus is designated as 'producer's surplus' or 'economic rent' and it is due to the natural advantages enjoyed by the superior land over the marginal land. In passing it may be pointed out that this surplus and consequently the margin of cultivation is not a fixed thing but changes with a rise or fall in the prices of the produce. The 'economic rent' goes to the owner in the shape of producer's surplus, if he himself cultivates his land, or in the form of economic rent, either in kind or money, if he lets it out to his tenants. It goes without saying that this surplus varies with the fertility and situation of land. The more fertile and better situated a field is, the greater would be its surplus in comparison to the less fertile and less favourably situated field. Hence, economic rent is a sort of differential gain that accrues to the owner of the land by reason of the relative advantages of fertility, or situation, or of both which a particular plot of land enjoys over a less productive land or a marginal land.

Contract Rent and its Determination

The distinction between economic rent and contract rent is a significant one which must not be lost sight of. By contract rent is meant the amount of rent, whether in kind or money, which the tenant pays to the landlord for the use of land and which is decided between the two parties by mutual agreement or contract. Economic rent or producer's surplus fixes the maximum limit beyond which a tenant would not consent to pay, and it is significant inasmuch as it forms the basis in the determination of contract rent. It is not necessary that the whole of the economic rent may be paid by the cultivator but under competitive conditions a landlord can legitimately make his tenants part with the economic rent. Contract rent is paid because of the economic rent; it follows, therefore, that

no contract rent would arise in the absence of economic rent.

Contract rent, like the price of a commodity, is determined by the conditions of demand for and supply of land. Demand for land arises because there is a demand for its produce. The price which the landlord can make his tenant pay for the use of land will be determined by the latter's estimate of the total proceeds of the produce arising from a particular field at a particular period of time. In order to find out the surplus he will deduct from the sale price of the produce all his expenses of cultivation and this surplus, which is in reality the economic rent, is the *maximum* that he can pay to the landlord. This maximum price varies with the character of the soil and its situation from the market. On the supply side, the landlord for his fields has got his *minimum* price got by him from an estimation of the probable amount of crops and produce, which would be raised on that land. If he failed to get this minimum he would rather prefer to cultivate his fields himself, or put it to some other use. Like the price of a commodity, the contract rent is fixed between these two points—the tenant's maximum and the landlord's minimum—by the higgling and bargaining of the two parties. If the demand for land is brisk among tenants, the rent will tend to reach the maximum of the tenant who needs it most and the landlord will have greater opportunities of exacting the full economic rent. If, on the contrary, there is little demand for land and the supply is greater, the rent will tend to approximate to the landlord's minimum and the tenants will have a stronger voice in bargaining.

Here it must be pointed out that in old countries which are heavily populated, and where pressure on land is acute owing to the dominance of agricultural population, the contract rent tends to approximate to the producer's surplus, i.e., to the economic rent. India and China afford good instances of this tendency. In our country, cases are not wanting where tenants besides paying the full economic rent are sometimes induced to

part with a portion of their normal profits. The cultivators stick to their present condition because it gives them at least a living which they cannot hope to find in any other occupation. But in a country, where population is evenly distributed among different occupations and where mobility of labour and capital from a less profitable occupation to a more profitable occupation is fairly available, the contract rents do not exceed economic rents. Again, in new countries, where the supply of land is abundant and the demand for it is much small in consequence of the scanty population, the contract rent is likely to approach the minimum of the landlords.

How Rent Arises: Ricardian Theory of Rent

Ricardo, a famous English economist of the classical school, formulated a theory of land rent which, in essentials, may be regarded as the basis of the modern theory of rent. Land being the most typical form of natural agent, Ricardo confined his attention to it while explaining the nature and origin of rent. His theory of rent is closely associated with the operation of the Law of Diminishing Returns. Following the line of argument adopted by Ricardo, his theory may be summarized as follows:

Let us suppose that an isolated tract of a country, hitherto quite cut off from the rest of mankind, is newly colonised by a few settlers, and further assume that the land available in this tract is not of equal fertility but of different fertility say, A, B, C and D class land in merit of descending scale of quality. In these circumstances, according to Ricardo, the most fertile and the most favourably situated lands are cultivated first, and as long as the best quality of land (A class land) is available for cultivation no differential profit and, therefore, no rent will arise.

With the increase in population and due to the inadequacy of the output of the first class land to meet the increased demand for the produce, a rise in the price of agricultural produce takes place, as a result of which land of inferior quality (B class land)

comes into cultivation. This resort to the inferior soil is due to the operation of the Law of Diminishing Returns, if there were no diminishing returns, then all the produce necessary to satisfy the needs of the population would have been raised from A quality of land by cultivating it intensively. As soon as the second quality of land is brought into cultivation, rent emerges and its amount will depend upon the difference in the produce raised on A and B qualities of land with equal doses of labour and capital. The land B is now said to be the land on the margin of cultivation. It just pays for the expenses of production and yields no surplus to be paid as rent. To illustrate this in a numerical form, we may assume that with an equal amount of expenditure and with the same methods of cultivation, the A class land yields a return of 40 seers of wheat while the B class land yields only 30 seers. The cost of production of wheat on the B class land being higher than the A class land, the price which rules in the market must cover the expenses on the B class land. The land A enjoys a surplus gain of 10 seers of wheat which is known as economic rent. The B class land does not enjoy any surplus and is classed as a no rent land.

With the lapse of time as the population goes on increasing, it becomes necessary to cultivate still inferior soils, viz., the C class land. It yields a smaller quantity of produce as compared to the B class land with the same doses of labour and capital. The B class land will begin to bear a rent equal to the difference in the produce raised on it and the C class land while the land A will pay a higher rent due to the increase in the surplus enjoyed by it over the C class land.

With every fall in the margin of cultivation, rent increases. When the D class land is cultivated, the other three lands A, B and C become superior lands and begin to bear rents equal to the surpluses enjoyed by them over the D class land. "With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality to enable it to raise its full supply, rent on all the more fertile lands will rise," and will always be equal to the difference between the

produce of a given quantity of labour and capital on the more fertile land and the marginal land at any given time.

The price of all agricultural produce is determined by the cost of production on the land which is on the margin of cultivation, if the produce raised on this land is required to satisfy the needs of the community. It enjoys no surplus and hence could not afford to pay any rent. Rent is not an element in the cost of production of the produce raised on the marginal land and, therefore, it does not enter into the price of the agricultural produce. "The exchangeable value of all commodities whether they may be manufactured or the produce of land, is always regulated by those who continue to produce them under the most unfavourable circumstances. . . . corn is not high because a rent is paid but a rent is paid because corn is high."

The Ricardian theory of rent embraces two margins—a resort to inferior lands leading to an extensive margin of cultivation and the Law of Diminishing Returns leading to an intensive margin of cultivation. When additional doses of labour and capital are applied to the existing lands instead of taking recourse to inferior lands, the system of cultivation is known as intensive cultivation. In conformity with the Law of Diminishing Returns the successive doses of labour and capital, applied on the same piece of land, will yield a diminished produce and a stage will soon be reached when the extra produce will just remunerate the additional doses of labour and capital applied to it. The dose of labour and capital which just remunerates the cultivator is called the marginal dose and regulates the price of agricultural produce in the market. The surplus enjoyed by the previous doses is a differential gain and is an economic rent under intensive cultivation. Even if all lands were of the same quality or if a supply of the best lands were unlimited, there would have been rents due to the operation of the Law of Diminishing Returns and the fall in the intensive margin of cultivation.

Bearing in mind the result of our previous discussion, the theory of rent can be illustrated by the following diagram.

Margin of Cultivation

The conception of margin of cultivation is not a static one. Any change in the price of the produce brings about a change in the margin of cultivation. A slight rise or fall in the price of the produce may change the status of the marginal land into a super-marginal or sub-marginal land. With a rise in the price of the produce it becomes profitable to extend both extensive and intensive margins of cultivation as the extra rise in the price of the produce enables even sub-marginal cultivators to supply their produce in the market. Similarly, a fall in the price of the produce would lead to a contraction of the margins under both the systems of cultivation, as the lower prices would bring smaller amounts of money which would not remunerate the expenses of marginal doses either on more fertile lands intensively cultivated or on lands at the margin of extensive cultivation.

Criticism of the Ricardian Theory

Accordingly, Ricardo considered rent as that portion of the produce of the soil which goes to the landlord 'for the use of the original and indestructible powers of the soil.' 'The comparative scarcity of the most fertile lands' he maintained 'is the cause of rent.' His theory about the nature and origin of rent has been attacked by several economists who have pointed out that the order of cultivation from richer to the poorer lands as assumed by Ricardo, is historically untrue. On the contrary, they maintain that the work of cultivation invariably commences on the poorer soils passing on to the richer soils as population increases, and show that at first men take up poor soils because they are light and easier to cultivate. But it must be stressed that the order of cultivation by which he enunciated the phenomenon of rent is not the essence of the theory; all he wants to prove is the fact that rent is a differential natural return of the fertile land over the inferior one. The productivity of land is a relative conception. 'If a certain amount of capital and labour will yield more when applied to a light than

to a heavy soil, the light soil is, in the sense of the Ricardo's theory of rent, the more fruitful, although it may be possible to produce more on the heavier soil by applying a greater amount of labour.' He understood by the best land, the land which gives the maximum yield in return for the minimum amount of labour. Another objection made to the theory is that original powers of the soil, in an old country, are not capable of an easy measurement. It cannot be found out how much of the produce is due to the 'original and indestructible powers of the soil' and how much to the improvements that have been effected over it. Again, the word 'indestructible' is misleading as the fertility of land is exhaustible, if it is continuously ploughed. But excluding fertility, there are other qualities of the soil such as the climate, the extent, the situation, etc., which are practically indestructible and which play no mean part in determining the differential advantages. Therefore, the theory may be modified but its fundamental conception remains unaltered.

Moreover, the Ricardian theory holds true under certain hypothetical conditions where competition between the landlords and the tenants and between competing tenants is fully effective. The theory assumes that the inferior class of land is freely available to the cultivators, that the marginal land always determines the price of the produce, and that a fall in the price of the produce always leads to an abandonment of the marginal land. But in actual practice the full play of competition may be held in check owing to customary rents, or the cordial relations between the tenants and the landlords, or the public opinion, or by State legislation. As Penson remarks, "From considerations of custom or sentiment, or from absence of practical knowledge or bargaining skill on the part of the landlord, farms are often let at rents below those which could be obtained under conditions of ordinary competition." Instances are not wanting as in India when the ignorant cultivators are forced to cultivate their holdings and pay contractual rents higher than economic rents to their landlords owing to the excessive pressure of population on land and lack

of other occupations. In such a case even the no-rent land will begin to pay rent as the rents realised by the landlords from the necessitous cultivators are uneconomic. Although in working out its results the theory may be modified, yet the essentials of the Ricardian theory remain intact to this day.

Rent does not determine Price

From the above it must have been clear to the readers that rent depends upon the price of the produce which is determined in the market by the interacting forces of demand and supply. If they have followed the argument of the theory intelligently, readers should not feel any difficulty in bringing back to their memory that the problem of rent comes into existence only when there is a rise in the price of the produce of land or a resort to inferior quality of land. The moment the second class land is brought under the plough, the first class land begins to pay a rent equal to the difference of the value of produce between two classes of land. The mere fact of bringing the second class land under cultivation does not give rise to the problem of rent. It is, in fact, the increase in price of wheat that has made possible the cultivation of inferior quality of land causing thereby a surplus produce on the first class land, otherwise known as rent. Therefore, it may be said that rent has nothing to do in the determination of the price of agricultural produce. Price determines rent; a slight rise or fall in the price of the produce brings about a reciprocal increase or reduction in rents. A further consideration over the statement will make the argument clearer.

It is a known fact that for the same quality of produce there rules one single price at any particular time in the market irrespective of the quality of land which produces it. There are different qualities of land—fertile, moderately fertile and inferior lands—from which the produce is raised in order to meet the total demand of the market. And the price of the produce, say wheat, in the market is fixed, in the long run, by the cost of cultivating the marginal land. The worst land on

the extensive margin or the marginal dose of labour and capital in the intensive margin produces just enough to cover the expenses of production and leaves no surplus for rent. Hence, rent forms no part of the price of agricultural produce as no rent is paid either on the extensive margin or on the intensive margin. Therefore, it may be concluded that when marginal cost of production does not include rent and when price is determined by the cost of production on the marginal land, it is not the rent that decides the price but it is the price that determines rent.

High price of agricultural produce is the cause and not the result of high rent. If no rent were paid for any land, prices would not be lower than they are. Supposing, if the landlords were to remit rent, the price of wheat would not be affected. The price will be determined, as usual, by the cost of raising wheat on the marginal land and the demand for produce remaining the same, its price will remain unaltered and, therefore, the remission will be appropriated by the tenant-farmers without benefiting the consumers in the least. As Ricardo says: "Corn is not high because rent is paid, but rent is paid because corn is high, and it has been justly observed that no reduction would take place in the price of corn although landlords should forego the whole of their rent. That corn which is produced by the greatest quantity of labour is the regulator of the price of corn, and rent does not enter in the least degree as a component part of its price." Certainly rent enters into price in the sense that rents are paid out of the sums received in the form of the prices paid for things. But it does not enter into price in the sense that it governs price of the produce, or that it is one of the elements of cost which determines the supply price of anything.

Consider again the rent of a shop situated in the centre of a market for which the shopkeeper pays to the landlord a high rent in comparison to another whose shop is not so favourably situated from the point of view of marketing. The former shopkeeper charges high prices from his customers, not

because he has to pay a high rent but because he could get high prices for his articles, irrespective of the amount of rent he has to pay, from his customers owing to the convenient situation occupied by that shopkeeper. Therefore, high rent which is due to the favourable situation is the effect of high price and not its cause.

When does rent enter into price?

There are, however, certain circumstances under which rent does enter into price. It has been pointed out that marginal land does not bear rent, for its produce is only just enough to cover the expenses of cultivation including normal wages and profits of the cultivator. But when rent comes to form a part of the marginal cost of production, it will enter into the price of the produce.

1. If the State which has the monopoly of land in a country, forces the tenants cultivating the worst types of lands to pay rent, then this portion of rent will form a part of the price of the agricultural produce. Similar results follow when landlords combine together and charge monopoly rent even for the worst land. This rent, when it forms a part of the marginal expenses of production, affects the price of agricultural produce.

2. If a land is paying rent under wheat cultivation and if it is brought in use for sugarcane cultivation, it will have to pay the same rent which it was bearing formerly even though for the latter type of cultivation, the land becomes a marginal one. The marginal sugarcane producer will have to pay the same amount of rent to the landowner which he was formerly getting and so this rent paid for the marginal land will affect the prices of sugarcane in the long run.

Rent of Building Sites

The rent of building sites is determined in accordance with the principles already explained. "There are no-rent building plots in abundance. Every township has its squatters

whose cabins, placed out of the way on worthless land, pay no rent. Even in the neighbourhood of large cities, shanties are perched on the rocks without objections from the owners of land which, in another twenty or fifty years, may bear a high rent." The rent of buildings depends almost entirely upon the relative advantages of situation and productivity (residential or business advantages) of the various sites, and may be regarded as being measured upwards from no-rent waste land which is useless for building purposes. It must not be forgotten that the rent of a house (or other building) is a composite income of which one part consists of rent for the site and the other of interest on the invested capital in the building. Here we take into consideration "ground rent" only.

As regards rents for residential purposes, the superiority of one site over the other consists in natural beauty, healthiness, convenience and fashionableness of the locality under consideration. Fashionable localities, where rich and well-to-do people reside, command high 'ground rent.' In regard to business sites, situation plays an important part in determining the economic rent of the site. Situation implies such qualities as convenience, fashionableness, intensity of traffic, etc., which attract a large number of customers. Convenient localities, where fashionable and rich classes do their shopping, command higher ground rent than those which are less favourably situated. For instance, the occupier of a shop in such a great shopping thoroughfare as Chandni Chowk, Delhi, will be made to pay a far bigger economic rent than the occupier of a similar sized shop in a less known area of the city. Landlords charge high economic rent in the former case because they know that the shopkeeper can charge high prices or obtain a very large turnover owing to the convenient and fashionable place of shopping. The high prices are not due to the high rents but due to the differential advantages of situation.

Rent of Mines, Quarries and Fisheries

The law of rent is not entirely applicable in the case of

mines and quarries which differ from the farming lands in that the latter will retain their fertility and continue to yield harvests year after year indefinitely, if properly worked, whereas the former contain fixed stores which once worked get exhausted after a time for ever. The rent paid for mines and quarries includes (a) payment known as Royalty or Nazrana or compensation for the material removed, and (b) a differential payment analogous to rent in respect of convenience of situation and facilities of working. In the latter respect mine rents resemble agricultural rents. Of two mines which yield similar quality of product with a given amount of labour and capital, that one will command a higher economic rent which is better placed in respect of markets, etc. Hence, the payments made to the owner of a mine for the differential advantages are certainly of the nature of rent. The rent of mines, like farming lands, is measured upwards from the marginal mines which just cover the expenses of production incurred in the extraction of minerals and yield no surplus for rent. Above these are mines which pay rent according to their productivity and situational advantages. The Law of Diminishing Returns operates in the case of mines as in farming lands leading to an extensive as well as an intensive margin. With a slight increase in demand for mineral products, less convenient and inferior mines may be taken up for extraction, and in the superior mines more doses of labour and capital in the shape of more costly and improved methods may be applied for the extraction of additional products.

As regards fisheries, it is held by many economists that if they are carefully worked, they give a satisfactory yield year after year like farming lands. When their stock is inexhaustible and a perpetual return is obtainable from them like the agricultural land, the rent of fisheries will be determined in the same way as the rent of land. Rent will arise on rich fisheries and it will be measured upwards like the agricultural rent from those inferior fisheries which by reason of low productivity or inconvenient situation are regarded marginal.

Factors Affecting Rent

Rent is dependent upon the market price of the produce. A slight fall in the price of the produce raises the margin of cultivation leading to a fall in rents, whereas a slight increase in the price will lead to an extension of the margin of cultivation causing rents to rise. Rent, therefore, is affected by all factors which affect the price of the agricultural produce. Let us examine all those factors and find out the effect of each:—

1. *Improved Methods of Cultivation.* Improvements in the methods of cultivation which include the use of better tools and implements, more powerful fertilisers, better rotation of crops, greater use of machines for ploughing the fields, sowing, irrigating, cutting and threshing the crops, etc., commonly lead to an increased produce at a lower cost per unit of output. That is to say, the same amount of produce in consequence of the improved methods of cultivation can be raised from a smaller area or increased quantity of produce from the same land. The increase in the total supply of grain (the conditions of demand remaining the same) will cause the price of grain to fall; the inferior class of land will be abandoned, the margin of cultivation will rise and rents will tend to fall. Rent arises due to the operation of the Law of Diminishing Returns, and, other things being equal, improvements in the methods of cultivation over a wider area will check the operation of the Law of Diminishing Returns, and, therefore, a resort to the inferior class of land. The differential advantages being less between the superior and inferior classes of land, rents will fall.

2. *Improved Means of Transport.* The improved means of transport and communication influence rents in a variety of ways in different localities. Owing to the reduction in the cost of transport, the surplus produce grown on more distant fertile lands will compete successfully with the produce grown on less fertile lands as a result of which the prices of agricultural produce will go down; when prices tend to

fall, inferior lands will be abandoned, margin of cultivation would ascend and consequently rents would fall. An area, where agricultural products are raised in sufficient quantities and prices are generally low, if connected by an improved and cheap system of transport to a new area where the agricultural products can be sold at a higher price, then the rents in the former area will tend to rise and in the latter tend to fall. Accordingly, when England and other industrial countries of the West were linked up with America, Canada and India by means of cheap railways and steamships, rents in the latter group began to rise in consequence of a rise in the prices of agricultural produce while in England inferior lands which were on the margin of cultivation were forced out of cultivation causing rents to fall down.

3. *An Increase in Population.* An increase in population, other things being equal, will lead to an increased demand for produce causing prices to rise. This rise in prices will enable cultivators to bring into cultivation inferior classes of land extensively and to apply more doses of labour and capital intensively on the land already under cultivation. Hence, a fall in the margin of cultivation tends to raise rents all round. Secondly, the pressure of population on land encourages the use of land for purposes other than the production of food materials, and, therefore, its value rises in view of its limited quantity. This tendency may be temporarily counteracted by improvements in the arts of cultivation and the opening up of the improved means of communication and transport but, in the long run, when land ceases to respond to additional doses of labour and capital increasing population will have a tendency to increase rents.

4. *The Advance of Civilisation.* The growth of wealth and prosperity within a country leads to an increased demand for land in a variety of ways and, therefore, rents will rise. In the first place, the improved standard of life of people means a more varied and increased consumption such as of food and clothing which will lead to a greater demand for the produce

of land and consequently rents will tend to rise. Again, a greater demand for recreation grounds, pleasure gardens and for other hundreds of requirements which are a necessary accompaniment of civilisation, bring about a shortage of farming land as a result of which the remaining agricultural lands will have to bear a higher rent.

The Unearned Increment of Land

At this stage of their study, students can easily follow the meaning of the 'unearned increment' of land. With a rapid growth of population, an increased economic prosperity and security of the people, and the opening up of cheap and efficient means of transport and communication, there arises a heavy demand not only for agricultural land but also for land meant for residential quarters, recreation playgrounds, shops and industrial establishments. When demand for land increases and its supply is limited, naturally prices and rents must rise. As the margin of cultivation goes down, the value of agricultural land rises without any effort on the part of the landowner. This kind of accretion in the value of land which is due to the social and economic progress, and is not due to any sacrifices of the landowner is known as the 'unearned increment of land.' But if any increment in value of land takes place due to personal sacrifices of labour and capital, then it would be called the 'earned increment' in contradistinction to the unearned increment which accrues to him without any personal sacrifices.

The phenomenon of the unearned increment of land may be treated in a more simple manner. Imagine a landlord owning a few thousand acres of land in a rural tract from which he draws a meagre subsistence owing to its unculturable nature, and around his estate lies a most fruitful plain growing sugar, cotton and other industrial products in abundance but hitherto not served by any railway. The railway authorities, realising the possibilities of future agriculture, trade and industries, appoint engineers who after making a survey of the area find out the proper alignment, and luckily decide to construct a

station in the estate of the said landlord. The intelligent industrialists having full foresight and energy take the opportunity by the forelock and work out schemes for floating new sugar, cotton and other concerns, in view of the promising profits held out by the proximity of raw materials. All the time the said landlord is sleeping; he does not know what is going on behind the curtains. These industrialists approach the landlord and all insist to have a favourable situation for their concerns as a result of which competition sets in and prices tend to rise high. The increment in the value of land is not the product of any labour undergone by the landlord but the special economic circumstances have helped in the accretion of such value. With the growth of industries and congregation of large number of workers and businessmen, a heavy demand for residential quarters, shops, educational institutions and recreation grounds would arise. In view of the limited supply of land, its value would soar high without any effort on the part of the land owner.

This unearned income is not the product of landowner's labour and is consequently anti-social. "He does not produce rent, but simply accepts it." On this ground, some economists advocate its appropriation by the State through taxation. They contend why the landlord should be solely allowed to enjoy this surplus of land value when it is due to the growth and progress of society and not due to any sacrifices of his own. Socialists have come forward with their schemes of 'Land Nationalisation' by which they advocate the ownership of land by the State and the extinction of all private proprietary rights in land.

These questions are of a more controversial nature, and will engage the attention of students in their advanced studies of economic theory and socialism.

Applicability of the Law of Rent to India

The law of rent is that the rent paid by a tenant, under free and perfect competition and freedom of contract, tends

to be so determined by the forces of demand and supply that it approximates to the pure economic rent. It assumes perfect freedom of contract and enterprise amongst the landlords and the tenants. Let us now proceed to study, in brief, how far rents in India approximate to true economic rent, and how far they are influenced by the law of rent as enunciated above. Taking the peculiar circumstances of the country such as the existence of elaborate tenancy laws relating to the various rights of tenants existing in the land, the peculiar social constitution of society and the absence of perfect freedom of contract and enterprise, we may, without any fear of contradiction, say that the operation of the law of rent in India is modified to a considerable degree. Before the advent of the British administration, there was a relative scarcity of tenants and the relations between the landlords and their tenants were very cordial. Rents at that time were mainly determined by custom and were paid in kind; but with the establishment of the British rule and the consequent peace and security, instead of the chaotic conditions that prevailed in the pre-British period, as the population, trade and commerce increased, *competition* began to play its important role in the determination of rent. The landlords loosening their traditional ties of relationship in their self-aggrandisement began rack-renting of the necessitous and ignorant tenantry charging much higher rents than the customary level. The competition was one-sided, as the demand for land was great owing to an increase of population and its predominant dependence for its livelihood on land due to the relative scarcity of other occupations. This factor enabled the landlords to exact much more than the economic rent—a phenomenon which not only impoverished the tenantry but also jeopardized the very basis of the agricultural industry because the cultivators lost all interest in the preservation of the productivity of land as the extra produce resultant upon the improvements effected by them would be pocketed by the landlords. This rack-renting necessitated State intervention in the relations between the landlords and their tenants. A series of

Tenancy Acts were in course of time enacted by the Government in order to secure for the tenant cultivators *fair rents* and a *fixity of tenure*.

The rent legislation has started from the basis of custom and has eliminated the evil tendencies of unfair and unfettered competition. In the *ryotwari* tracts of the provinces of Bombay, Burma and the greater parts of Madras and Assam the question of rent does not arise at all as the *ryot* who holds his right in land from Government pays revenue—and not rent—for its use directly, without any intermediary as in the case of the zamindari tracts, to the treasury of the State on terms and conditions regulated by the State authorities. In such tracts, where subletting is practised on by the *ryots* who hold large acres of land, tenants are not only stripped off the whole of the economic rent but also some portion of the remuneration got by their own labour and enterprise as well, which would have been theirs under free conditions of contract and enterprise. Again, as a result of the several tenancy laws found operating in the permanently as well as the temporarily settled *zamindari* provinces of Bengal, Bihar and Orissa, the Central Provinces, the Punjab and the United Provinces, various kinds of privileged tenants below the landlords have come into existence such as Permanent tenure-holders, Fixed-rate tenants, Ex-proprietary tenants, Occupancy tenants and Statutory tenants in whose case the revision or enhancement of rent does not depend on the sweet-will of the zamindar and consequently in their case too the law of rent does not hold good as its working is checked by a number of legal safeguards. The unprivileged tenants such as the tenants-at-will who get no protection of the law are the worst sufferers, as they have to pay frequently more than the true economic rent.

Thus, it may be summarised that agricultural rents in India are determined by custom, competition and legislation. The applicability of the law of rent in India as stated by economists is not allowed as it is definitely checked by custom and legislation.

Land Tenures in the United Provinces

In India, where the ownership of land is still a vexed question, and the landlord's rights of the absolute ownership of the soil are disputed due to the superior rights of the Government of this country, the term 'land tenure' gives a different and a peculiar sense. By 'land tenure' we mean the rights and liabilities under which the landlord, for the collection of revenue or for the letting of his land to the tenant-cultivators, holds his land from the Government which is in theory the real proprietor of all the land available in the country while ordinarily land tenure means the terms or conditions on which the cultivator cultivates the holding. We have, therefore, to recognise two kinds of land tenures in India, viz., proprietary tenures and cultivating tenures. The important types of proprietary land tenures from the point of view of land revenue assessment are the (i) Zamindari tenure, (ii) Mahalwari or Joint-village tenure, (iii) Ryotwari tenure, of which the first two systems are found in the United Provinces.

(i) *The Zamindari Tenure.* Under this system the State deals directly with the Zamindar who is held responsible for the regular payment of the Government revenue. The settlement is either permanent such as in Bengal, Bihar, north-east of Madras, and the Benares Division of the United Provinces where the amount of revenue payable by the landlord has been fixed in perpetuity, or temporary such as in Oudh where the rates of revenue assessed by the Government on the Taluqdars are liable to be revised and increased too on the expiry of the settlement if there is any rise in the productivity of the soil or a rise in the prices of agricultural crops.

(ii) *The Mahalwari or Joint-village Tenure.* In this system, the Government, instead of entering into contract with a big landlord who holds large estates together, assess the revenue upon the co-sharers, holding a portion of a village, as a single village or even more than one village, who are held jointly and severally responsible for its payment to the Government treasury.

This system prevails in the villages of Agra and in non-taluqdar villages of Oudh. The revenue is fixed with a village community temporarily for a period of thirty years after which the rates of revenue are liable to be revised. But the real person responsible for the payment of land revenue to the State is the *lambardar* or *malguzar* who enters into contract with the Government to pay the revenue on behalf of the villagers owning shares in the estate. As we are mainly concerned with the system of land tenures prevailing in the United Provinces, it would be wise, therefore, in this connection to examine in details the various types of proprietary tenures. The main proprietary tenures are: (a) *Single Zamindari* where there is one proprietor who after realising the rent from his tenant cultivators pays his allotted share to the Government treasury; (b) *Joint Zamindari* where an estate is held in common, the Government revenue and other liabilities being paid out of the rents after which the remainder is divided among the several partners according to their respective shares; (c) *Pattidari* where all the land of an estate is divided and each holder gets his *patti* or share separately. The individual liabilities of the *pattidari* is regulated by their respective shares, as recorded, not as actually held; (d) *Bhaiyachara* where all the land comprising an estate is held separately by more than one proprietor, the liabilities of the co-sharers being assessed on their actual areas possessed by each; (e) *Imperfect Pattidari or bhaiyachara* where part of the land is held in common, part in severalty, and rents of the common lands go first towards the revenue and other liabilities. In such tenures where there is a case of joint ownership the Government revenue is paid through the *lambardars*.

(iii) *The Ryotwari Tenure*. This system is largely prevalent in Bombay, Madras, Burma and Assam and is conspicuous by its absence in the United Provinces. In this system, the State deals directly with each individual peasant and recognises no middlemen as in the *zamindari* or *mahalgwari* tenures, and the revenue which is assessed on each separate field according to its productive capacity is paid by the actual occupants of

holdings.

But no account of land tenure in the United Provinces of Agra and Oudh will be complete without analysing the different kinds of the cultivating tenures as contradistinguished from the proprietary tenures. It should be carefully borne in mind that under proprietary tenures we have discussed the conditions on which the landlords have taken land from the Government while under cultivating tenures we study the terms and conditions on which the cultivator takes the land from the landlord for purposes of cultivation. We already know that in order to protect the interests of the tenant-cultivators against landlords, the Government by enacting several tenancy laws created a privileged class of cultivators giving them sub-proprietary rights in the land.

The attention of the United Provinces' Government was attracted from an early period of its rule to the impoverished state of the tenantry which ultimately bore the whole burden of the rent, and with a view to alleviate this unwholesome feature, many legislative measures have been enacted. The Agra Tenancy Act of 1901 recognised five classes of privileged tenants: (i) permanent tenure-holders, (ii) fixed-rate tenants, (iii) ex-proprietary tenants, (iv) occupancy tenants, and (v) non-occupancy tenants. The first two classes of tenants, or sub-proprietors as they are called, are found only in the permanently settled areas of the Benares Division; their rates of rent payable to the landlord were also fixed in perpetuity at the time of the permanent settlement. Their right is heritable and transferable; they can make permanent improvements on their property, mortgage and sell it. Ex-proprietary tenants who were once proprietors of the land but have lost their right of ownership in land, obtain by legal provisions cultivating rights in their *sir* (or home-farm), and are entitled to hold it at a lower rate than the rate of the tenants for the same quality of land, in the same village. The right of these cultivating ex-proprietors is heritable but not transferable. Occupancy tenants are those favoured tenant-cultivators who acquire the right of fixity of

tenure by continuously cultivating the same land for twelve years. Their right is heritable but not transferable except under certain conditions; the rent payable cannot be increased except by mutual agreement or by an order of the revenue court and that too only after a certain period of time. Non-occupancy tenants hold land without any rights. The Agra Tenancy Act of 1926, besides effecting a few other improvements, was mainly enacted to protect the tenants-at-will who could, before the passing of the Act, be arbitrarily ejected by a notice at the close of any agricultural year. The object of the Act is to give *fixity of tenure* and *fair rents* to the tenants for effecting permanent improvements in the arts of cultivation. All those who were tenants-at-will at the commencement of the Act were granted statutory rights under which they became life tenants with a right to the heirs to hold the land for five years or upto the expiry of the lease, whichever was longer. This new class of tenants created by the recent legislation is known as the "Statutory tenants." The Act of 1926 also allows commutation of kind rents into cash ones. The rents of the statutory tenants are not liable to increase before the expiry of twenty years when the State will declare the renewed scale of rates, after conducting a thorough enquiry.

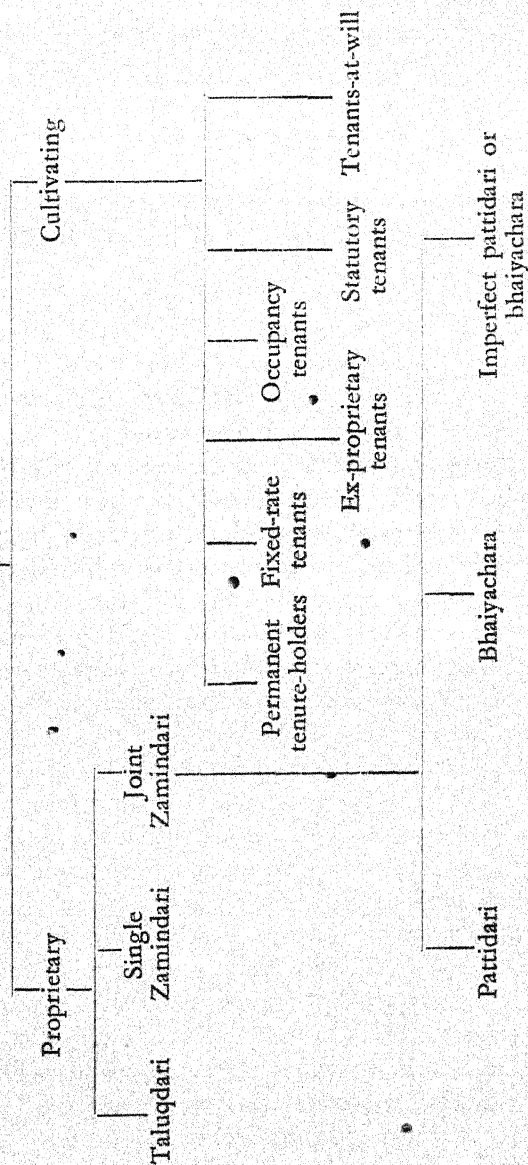
In Oudh, Act XXII of 1886 created statutory tenants who were given the right of holding the land for seven years at the same rent. In the last decade, the Oudh Rent Amendment Act of 1921 brought about some notable changes in the rights of statutory tenants. Under this Act, every such tenant is entitled to receive a lease for ten years, and at the close of every such term to receive another similar lease provided that he agrees to any enhancement of rent claimed by his landlord, or in case of dispute, ordered by the court. Special provisions have been made for the fixing of rent-rates to be used by the courts in determining fair rents. When a statutory tenant dies, his heir is entitled to retain the holding for a further period of five years, but is, thereafter, liable to ejection at the pleasure of his landlords.

Ideal System of Land Tenure

The ideal system of land tenure must give a permanent interest in land to the tillers of the soil. If the interest is temporary, he would exploit the land to yield the utmost at present without minding the fact that it would cause a permanent damage to land. There should not be any fear of unfair rents or insecurity of tenure. It should give a free and full incentive to the tenants to effect improvements in land and to enjoy its benefits. The Zamindari system falls short of the above ideal while the peasant proprietorship of the Punjab approaches the ideal to a very great extent.

Hereinafter is given a chart representing the different systems of land tenures as found in the United Provinces.

LAND TENURES



CHAPTER XXI

WAGES

Wages Defined

Wages have been defined as "the price of labour hired and employed by an entrepreneur." The word 'wages' should be applied only to the remuneration for a particular kind of labour; that is, for labour performed under certain clearly defined conditions. We, therefore, exclude from the list of wage-earners all the independent producers and those professional people such as, doctors, lawyers because they do not sell their labour to an employer or entrepreneur but deal directly with the consumers and, secondly, because the economic laws which govern the rates of their remuneration are entirely different from those which regulate the wages of employees. In a big concern several grades of wage-earners from the organiser or the manager in a joint-stock company down to the unskilled workers with a long chain of intermediaries such as superintendents, inspectors, foremen, auditors, stenographers, accountants, clerks and the skilled workers, render their services either mentally or physically in the production of material wealth. Economists regard the remuneration of labour, whether manual or mental, skilled or unskilled, and whether it is paid weekly, monthly, quarterly or annually as wages and do not draw any difference between 'wages' and 'salaries' as the latter are determined exactly in the light of the same principles as the former ones.

In order to avoid confusion, we should also give another current definition of wages so often given by distinguished writers in their Economics treatises. The term 'wages' is used by them in a wider sense to denote the remuneration given to labour of all grades employed by others and also for the personal

services put in by an entrepreneur. In the light of this definition, wages would include not only the earnings of hired, skilled and unskilled workers, highly-paid managers and organisers but also the remuneration of superintendence received by the entrepreneur himself. The wages of entrepreneur, are justified on the ground that if he had not taken part in the work of organisation, he would have been driven to the necessity of hiring the services of an expert organiser and hence, to the extent he puts in his own labour in the management of the productive forces of the industry he is a labourer and rightly entitled to his wages of management.

Nominal and Real Wages

In the present age of money economy, wages are generally paid in money, though in some places wages in kind still prevail. When wages of a labourer are calculated in terms of money, we call them as *nominal* or *money* wages. The *real* wages consist in the amount of necessities, comforts and luxuries which can be bought by money wages, and other advantages which are afforded by an occupation. Nominal wages are reckoned in so many rupees, annas and pies, whereas real wages are reckoned in so many commodities received in exchange of money or nominal wages, plus any other concession or incidental advantages of an occupation, e.g., the real wages of a domestic servant consist in the amount of necessities and comforts which he gets by spending his money wages, including such advantages as free food, clothings, lodging and other rewards, etc., found associated with an occupation. This difference between real and nominal wages is of vital importance to an economist while considering the relative rates of wages in different occupations and in different countries. It is quite possible that nominal wages in two different occupations or in two countries may be equal while real wages may differ considerably. Many factors are taken into consideration before any correct estimate of real wages can be arrived at.

(i) *The purchasing power of money.* The purchasing

power of money varies from time to time and from place to place with the consequence that the same nominal wages at two places may lead to a considerable difference in the real wages, if the difference in the general level of prices is a marked one. In big industrial towns and cities, owing to the general level of high prices, higher nominal wages have to be offered to the labourers. Sometimes employers indirectly try to increase the purchasing power of money of the labourers by starting co-operative stores and by giving other facilities to them. It should also be remembered that a rise or fall in the prices of commodities ordinarily consumed by the labourers will decrease or increase the real wages in spite of any change in the nominal wages of the labourers.

(ii) *Regularity or irregularity of employment.* In comparing real earnings, allowance must be made for the regularity or irregularity of employment in an occupation. In some occupations, e.g., in building trade where the work is of casual and uncertain nature, the rate of nominal wages is somewhat higher than in those trades which though require similar strength and ability but give an assured employment throughout the year. Although the nominal wages are high, yet the real wages calculated over the whole year are low because the labourers have to remain unemployed for longer periods owing to the seasonal and uncertain nature of the work.

(iii) *Supplementary incomes.* In some localities or industries, labourers accept low nominal wages because they see the opportunities of getting their earnings supplemented by the additional employment of their children and wives. In some localities, e.g., in stone-quarries in Mirzapur, or in iron works at Kulti where there are no opportunities for the employment of child or female labour owing to the arduous nature of the work and the absence of other subsidiary occupations, the male worker commands slightly higher nominal wages because the whole burden of the maintenance of the family falls on his individual earnings but his real wages will probably be much lower if compared with a weaver in a cotton mill at Nagpur

who receives low wages but manages to augment the aggregate income of the family by the earnings of the other members of the family.

(iv) *Cost of Training.* In estimating the real wages of the workers in different occupations allowance must be made for all expenses incurred in the training, etc. To find out the real wages of a mechanical engineer we must make allowance for the training expenses whilst he attended the different institutions and other charges which are necessary to render him an up-to-date engineer.

(v) *Concessions incidental to the occupation.* While reckoning the real wages of the workers in various occupations, account is taken in addition to the money wages of every other kind of concession, direct or indirect, incidental to the particular employment, e.g., the free lodging and other allowances, etc.

(vi) *The nature of the employment.* In dangerous, disagreeable and unhealthy occupations (e.g., lead-working, mining and heavy metal-casting) which require excessive strain on mental and physical faculties, and involve greater liabilities of running into hazardous accident, etc., the real wages are low if compared with the rates of those occupations which are secure and healthy.

In a similar manner, the cleanliness, the pleasantness, and social standing of an occupation have to be taken into consideration while calculating the real value of the wages received.

(vii) *Prospects of success.* Sometimes, persons do not mind accepting low wages in the initial stages of their employment if the prospects of security of service and promotion to higher grades of services are offered by the occupation.

The decision of a worker to undertake a particular job is governed more by the real wages than the nominal wages for his interest does not lie so much in the number of coins as in the number of his wants which are capable of being easily and conveniently satisfied.

The above factors also denote the causes of different rates of wages found in different occupations and at different places.

Methods of Wage Payment

There are two principal methods of paying wages. When wages of a labourer are paid by a unit of time—by the hour, day, week, month or year—irrespective of the work done, the system is called as the *Time wage* or *Time earning*; while when wages are paid per unit or piece of work completed by the labourer, the system is known as the *Piece wage*. Although both the systems of remunerating labour are adopted suiting to the requirements of business or the nature of the work within the same industry, yet the time wage is the most widely used system in the modern industrial economy. The piece rate system is adopted in those industries where the work does not require a high degree of workmanship and is capable of accurate measurement, as in weaving, reaping crops, or in digging earth for embankments, etc. The time wage basis is found in those works which require a high degree of workmanship and admit of no easy measurement. Highly skilled and specialised forms of works are invariably paid by time. While estimating the merits of any wage system, the two essential tests must be clearly borne in mind. Firstly, the method of remuneration must be *fair* all round, "fair to the workers as a group, fair also to each one of them as a separate individual; fair to the employers, and fair to the whole community as consumers." Secondly, it must be in consonance with progress and efficiency in industry.

Advantages and disadvantages of the time wage. This system has been favoured by workmen because it gives them a greater regularity and security of employment, safeguards them from over-pressure and strain, increases the quality of work done by the workers and diminishes the possibilities of unemployment. In contrast with these advantages, the general defect associated with the time wage system is that it tends to encourage slackness amongst the workers, as they are confident of their weekly or monthly remuneration irrespective of the work turned out. As a result of this, the overhead charges of the industry increase due to the additional expense incurred in the

employment of overseers and foremen to watch over the activities and the quality of the work performed by the workers. Secondly, the relative efficiency of the different workers in the time wage system cannot be easily found out with the result that the more efficient workers stand to lose in such a bargain, unless strong supervision is maintained to keep an eye over the relative output of the different workers with a view to remunerate them accordingly.

Advantages and disadvantages of the piece wage. The chief relieving feature of the piece wage system lies in the fact that it is fairer both to the workers and employers. Each worker is paid at the contracted rate per unit of his product, and is remunerated in proportion to his output, as a result of which the superior workers are offered an incentive to do their best by the prospect of a high rate of remuneration than the inferior workers. Again, under this system the workers can 'by a spurt of extra effort' manage to increase their earnings quite conveniently in order to meet any emergency. In short, the capital and labour forces of the industry are used more economically, the total production is greatly stimulated, and the cost of supervision is reduced as the payments are made by 'result'.

On the contrary, this system carries certain grave defects. In the first place, it results in defective or "scamped" work, as the worker's eyes are fixed on the quantity and not on the quality of the work. In those occupations which require a high degree of workmanship this system is found to be most defective. Secondly, the workers by the temporary prospects of high earnings are apt to strain every nerve without taking due notice of the future consequences. This temptation to overwork or "speeding up" is a great evil, as it may lead to an early exhaustion of the productive capacities of wage-earners. Next, it eliminates the inferior workers and breeds a feeling of competitive rivalry among the workers. Lastly, the worker suffers a serious loss of remuneration at the time of sickness or accidents or of temporary stoppages of the work. In adopting

this system of wage payment it should be the duty of the employers and the State as well to protect the workers from over-exertion and "speeding up" which proves, at all estimates, too detrimental to the community.

How Wages are Determined?

Several theories have been formulated to explain how the share of the social product that goes to labour is determined. The modern theory of wages, known as the *Demand and Supply Theory of Wages* or the *Marginal Productivity Theory of Wages*, is admitted so far by most of the eminent economists to be the best explanation of wages. According to this theory, labour is likened to a commodity and like the price of a commodity, the price of labour, viz., wages, is determined by the relation between the demand for and supply of labour, subject to certain reservations. For a full understanding of the theory, a complete elucidation of the terms, 'demand for labour' and 'supply of labour' seems needful.

The demand for labour closely resembles the demand for commodities in general. It arises from the service it renders in the production of wealth and depends partly, on the number of commodities turned out by it and partly, on the value of such commodities. Just as in the case of a commodity the consumer's maximum is determined by the utility he expects to derive from it, similarly the employer's maximum is determined by the productivity (i.e., amount of wealth produced) of labour. Manifestly, no employer can afford to pay more than the wealth produced by the worker. This explains why the remuneration of a skilful engineer is so handsome than that of an ordinary labourer whose contribution to production is much smaller if compared with the former. The demand for labour exists for various grades of labour and not for labour in general. Here, it may be remarked that an employer does not demand labour for its own sake but for the sake of profit that he would derive from the sale of commodities produced by the labourers and as such there is a limit to the number of workmen who can be

profitably employed because, after a certain point, the employment of additional workers becomes unprofitable. So a stage is conceivable beyond which the employer will not think it worth while to engage any additional worker. In this way, the last worker the employer is prepared to employ is the 'marginal producer' and the contribution he makes to the production of a commodity is the 'marginal productivity' of labour engaged in that industry. He is just on the margin of being employed or dismissed. It may, therefore, be said that on the demand side the maximum limit beyond which rates of wages cannot be paid for a certain grade of labour, is determined by its marginal productivity to the employer.

To simplify what has been said above, let us take a concrete illustration. Suppose a firm by employing 50 workers is getting a net product of Rs. 5,000 a year. On making calculations (i.e., by finding out the market net value of the goods turned out by a labourer, if it is found out that the last labourer adds Rs. 100 worth of product while he is paid Rs. 80 as wages, then an advantage of Rs. 20 may be said to accrue from the productive activity of the last worker to the employer. Guided by this monetary advantage he decides to employ more employees until he finds that the employment of the 55th worker gives him just that quantity of product (Rs. 80) which is equivalent to the amount of wages (Rs. 80) paid to him. Here, the last man employed (the 55th man) may be called the 'marginal labourer' and his contribution may be called the 'marginal productivity.' By hypothesis the workers in the same group are of equal efficiency and interchangeable with any other worker in the same grade and, therefore, the same wage must be paid throughout that grade. The wages of the grade, therefore, tend to be measured by the value of the product of the marginal labourer, or, to express the same idea in a scientific manner, *wages tend to equal the value of the marginal net product of labour.*

Let us now consider the supply side of labour. Labour like a commodity, has a cost of production, and an adequate

supply cannot be had unless the remuneration of the workman is sufficient to cover the cost of his services. For any given class of workers, the cost of production means the standard of life, i.e., the amount of necessities, comforts and luxuries of life that the labourers are accustomed to enjoy. This standard of life varies with different groups of workers and fixes the *minimum* limit below which the rate of wages cannot fall, so long as the standard of living of that class remains the same. The 'cost of production' of labour, i.e., the cost of rearing and training workmen to enable them to reach a certain requisite standard of efficiency, plays an important part in the determination of wages. Wages which are insufficient to keep up the standard of life of a worker and his family cannot indefinitely remain so. A greater tenacity in maintaining the established standard of life is shown among the higher grades of labourers who restrict the supply of labour by limiting the number of children in order to provide them with the same education, training and efficiency which they themselves have received. It is worthy of observation that standard of living, efficiency and wages are inter-related as they react upon each other. A rise in the standard of living means a greater efficiency which in its return leads to greater productivity and hence, to higher wages. Similarly, a fall in the standard of living either due to reductions in wages or to some other causes impairs efficiency of the workers leading to inefficient production and, therefore, to lower wages. The effect in both cases is cumulative. If workers are physically strong, technically trained, intellectually far advanced, financially better off and industrially better organised, their contribution to production is of greater value than the contribution of those who lack these advantages and opportunities; the former group of workers will insist on securing the whole of the marginal product as their remuneration, whereas, the remuneration of the latter group of workers owing to their disorganised state and financial weakness will just equal their standard of living. In view of these far-reaching consequences, labourers are very jealous of their standard of living

and exert every nerve of theirs to live up to that standard. The supply of labour, and hence, the lower limit of wages is fixed by the standard of life of the workers.

By way of summing up, we may conclude that wages are determined by the relation between the demand for and supply of labour. The employer's maximum is determined by the contribution of the marginal labourer while the minimum is determined by the standard of life of the workers. "Between the lower limit set by the standard of subsistence or by the standard of life, and the upper limit set by the value of the labourer's contribution to the product, wages will fluctuate according to the relative bargaining strength of the two parties to the wage contract."

Some Peculiarities of Labour

In the foregoing discussion regarding the determination of wages under free conditions of competition and enterprise, we have treated labour as a commodity and the wages paid to labour as its price. The theory entirely ignores the human element and other important differences that exist between labour and commodities and, as such, the working of the theory must be modified to that extent. Prof. Marshall has pointed out that the following peculiarities in the demand for and supply of labour, must not be forgotten in the treatment of the theory of wages.

1. *The worker sells his work but he retains property in himself.* He cannot sell himself like a commodity or any material agent of production. Those who bear the expenses of rearing and educating labour, receive nothing of the price that is paid to the labourer as his wages. Consequently, the investment of capital in the rearing and early training of the workers is limited by the resources of parents, by their power of forecasting the future, and by their willingness to sacrifice themselves for the sake of their children. Unlike manufacturers, who produce goods in the expectation of getting direct reward out of their invested capital and exertion undergone therein,

parents invest money in the education and training of their children without any hope of direct remuneration. The evils that arise out of this peculiar situation are cumulative. They are specially noticeable among the poor and thoughtless parents who neglect the proper education and training of their children, either due to their weak financial circumstances or due to their selfish spirit or due to the lack of foresight, with this consequence that if once they become inefficient producers the effect continues in a cumulative way. In the higher grades of society, the children of artisans and of those educated classes which entertain a higher notion of duty towards their children, get a better start in life with greater chances of success in life than those of the workers whose parents are financially weak and uneducated. It is one of the chief causes of the immobility of labour from grade to grade.

2. *When a person sells his services, he has to present himself where they are delivered.* A labourer cannot be separated from his work and so he must deliver himself personally on the spot. It is otherwise with the owners of land, capital and capital goods, who can sell their services abroad, and yet sit at home. Since the worker must be present, where his work is sold, it follows that mobility of labour and the mobility of the labourer are convertible terms. Therefore, the nature of the work, and associates, the agreeableness or otherwise of the place of work and the scale of remuneration are very important factors for the worker.

3. *Labour is the most perishable commodity.* If a labourer is out of employment for a day, its remuneration is lost for ever. A labourer cannot afford to wait for better prices (wages) as he cannot store his labour. The merchant, on the contrary, can withhold his commodities from the market if the prices are too low. This peculiarity forces the labourers to accept any rate of wages than to face unemployment and all its attendant miseries. There is, however, no cumulative effect of this peculiarity, unless during the period of unemployment the standard of living is so reduced as to affect his efficiency

permanently.

4. *Labourers being poor and disunited are at a great disadvantage in their bargaining capacity as compared with the skilled employers.* Trade Unions help to bring about a balance of power between the two parties but their sphere of activities is mostly limited to skilled groups of workers. The union spirit is sadly lacking in the unskilled labourers, in whom it is most urgently needed. The unskilled labourers owing to the want of reserve funds with them and of the power of long withholding their labour from the market, often accede to the arbitrary terms of the moneyed employers. The effects of the labourer's drawback in bargaining are cumulative. As a result of a fall in wages, his efficiency as a worker will go down and, therefore, the normal value of his labour. These drawbacks of labour tend to decrease with the growth of strong labour unions, whereby, collective bargaining is substituted for individual bargaining.

5. The last peculiarity consists in the *slowness of the growth of new supplies of labour.* Unlike a commodity, the supply of which can be decreased or increased at will, the supply of labour is comparatively fixed for a fairly long period as an adequate length of time is required for rearing and training labourers for a particular trade. The increased demand for labour in any industry may normally be met, either by an increase in the labour reared and trained for that industry, or by a movement of workers from other trades. The training of higher grades of labour specially depends upon the capacity of the worker's parents to forecast the future of such trades. The movement of labour from other grades depends on the degree of the mobility of the labourers from one grade to another. On the other hand, if the supply of labour is in excess of the demand, adjustment cannot be brought about, unless the surplus goes permanently out of employment or dies out with the lapse of time. The supply of labour, therefore, cannot be quickly adjusted to demand.

Trade Unions

Trade Unionism is the product of industrialism. With the growing industrialisation and the consequent emergence of the proletariat, trade unionism came into existence to wipe out many of the disabilities which overtook the labouring classes helplessly in the beginning of and after the Industrial Revolution. Contrary to the current opinion that a trade union is a militant body always at dagger's drawn with the employers, it must be pointed out at the outset that its primary object is to maintain and improve the conditions of the working life of the wage-earners. A trade union has been defined as 'a continuous association of wage-earners for the purpose of *maintaining* and *improving* the conditions of their employment.' At a later stage of their study, students will realise that trade unionism has been a great constructive movement which has played in many countries of the world a dominant part in the way of influencing legislation to combat the demoralising evils of child labour, excessive hours, and other inhuman, hideous and degrading conditions of industrial life.

The main objects of such associations are stated to be the following:—

(i) to foster a spirit of brotherhood and a feeling of corporate existence or what is called 'esprit de corps' among the work-people; to give them greater strength in the matter of bargaining with employers through 'collective bargaining' and to regulate the conditions of employment;

(ii) to educate labour and to keep up wages to the marginal work of labour and to bring about a rise in wages by raising the standard of efficiency and workmanship;

(iii) to collect funds for the relief of members when sick or in distress and provide out-of-work pay when members fail to secure employment, either through slackness of work or through strikes or lock-outs.

Trade Unionism in India

Trade unions in India have a short history. It was not

until 1918 that labour began definitely to organise itself. The War created a new mass-awakening and the industrial workers became more and more conscious of their grave economic difficulties, particularly in matters of wages and working hours. Owing to the low wages, offered to the workmen, the unprecedented rise in prices, the high profits reaped by the employers, and the degrading conditions of work, the condition of the industrial labour became too critical and the only remedy was sought in combination. From that year onwards there has been a more or less steady growth of trade unions, in spite of the inevitable fluctuations in their prosperity. The first Madras Labour Union was organised by Mr. B. P. Wadia; from Madras the trade union movement spread to Bombay. In many of the manufacturing industries and other establishments trade unions were organised but many of them were in reality mere strike committees and died an early death in the years following 1920. The only stable unions which showed signs of permanence and vitality were of clerks, railway workers, postal employees and seamen. The trade union movement is also strong among the factory workers of Bombay and Ahmedabad.

The All-India Trade Union Congress was inaugurated in 1920 and since then it has been holding annual sessions in various centres. The main objects of the organisation were to co-ordinate the working of the individual trade unions and, to recommend to the Government of India, workers' delegates for the International Labour Conferences. It became a central organisation for the general guidance of the trade union movement in India, but from the very beginning it had a strong political bias. Its presidents and secretaries with the exceptions of a few persons have all been politicians first and labour leaders next.

As a result of the passing of the Indian Trade Unions Act in 1926, the movement has been placed on a more substantial footing. The Act grants immunity to all officials and members of a registered trade union from civil suits and criminal prosecutions in respect of and in the furtherance of its legitimate

objects and they are not to be indicted for conspiracy. These privileges are not conferred on the unregistered unions.

Reasons for the Slow Progress in India

Considering the total labour force in India, the progress of the movement is very slow. The difficulties of organising permanent trade unions on a stable basis may be enumerated as follows:

(a) The constant migration of wage-earners from village to town and town to village and from one mill to another, even in the same town, tends to diminish their interest in any organisation. Indian labourers regard industrial life as a temporary expedient always cherishing the hope of returning and spending their final days in their native places.

(b) Illiteracy presents a serious obstacle in the way of regular organisation. Being illiterate, they cannot appreciate the value of combination and the lack of genuine labour leaders can be explained to this drawback. In the absence of any internal collective will among the trade unionists, no stable organisation can flourish.

(c) The extreme poverty is another bar in the way of permanent organisation as even a minimum subscription is a sort of drain on the slender purses of the workers, particularly when they are already embarrassed by debt.

(d) Diversity of language and caste is a great hindrance in the way of combination and forming one strong organisation.

(e) The opposition of an overbearing and selfish *sardar*—a jobber who occupies a very important place in an Indian factory as he recruits mill hands and often lends money to them in the formation of effective trade unions—is a potent one as he would be deprived of the influence which he now wields in the present state of disorganised labour.

(f) Organisation of labour is a much more difficult problem owing to the dominance of agricultural population in India.

(g) The hostile attitude of the employers also acts as a serious deterrent to the healthy growth of trade unionism.

In view of the fact that trade unionism is for those who are extremely weak and poor, all efforts must be directed to eliminate the above-mentioned drawbacks and strengthen the trade union movement as the industrial success of a country depends upon the industrial efficiency of its workers.

Mobility of Labour

By mobility of labour we understand the movement of workers with ease and promptitude (a) from one place to another, (b) from one profession to another, or (c) from one grade to another in the same trade or profession, in response to better inducements regarding the conditions of employment and remuneration. The first is called as the *geographical* or *place mobility* of labour; the second as the *horizontal* or *professional* mobility of labour, and the third as the *vertical mobility* of labour. The geographical mobility may be either permanent or temporary. Temporary flow of labour may be of the nature of movement of Government servants on transfer, or labourers moving to carry some seasonal occupation or trade, or merchants and tradesmen who repair to new and undeveloped areas only to come back to their homes after having amassed a fortune. Permanent migration may be either due to social or economic causes which are very strong and count much in promoting the efficiency and productivity of labour.

Immobility of labour means the state when the flow of labour from one place to another, or from one trade to another, is practically absent in response to higher wages and better inducements. The mobility of labour differs in different countries, different occupations and at different times within the same country and is governed to a very great extent by the spirit of enterprise, social customs, religious scruples of the people, and the extent of industrial progress achieved within a country.

Mobility of Labour leads to Equality of Wages

The difference in wages in different places and industries may be ascribed due to immobility of labour. So the obvious

remedy to bridge the glaring inequalities of wages is to seek ways and means of increasing the mobility of labour. Other things remaining the same, if efficiency of workers is the same and there is perfect mobility of labour from place to place, and from occupation to occupation, the wages of workers will tend to equality. Mobility of labour also promotes the efficiency of labourers in so far as it brings about the most rational distribution of labour force within a country.

Hindrances to Mobility of Labour in India

The general immobility of the Indian population is ascribed to the following reasons:—

(i) About three-fourths of the population consists of agricultural classes which are most immobile almost all the world over. Owing to their conservative and stay-at-home nature, to which Indian peasants are no exception, and the strange difficulties attendant upon their geographical mobility concerning the soil and climate of the place, the Indian cultivators generally stick to their ancestral holdings.

(ii) Caste-system which is a special feature of the Indian society also makes labour partially immobile, as it determines irrevocably the kind of profession which a man is to follow without the least deviation if he wants to enjoy the protection and goodwill of the community into which he was ushered. Thus, the rigid rules of caste-system are a giant obstacle in the way of horizontal mobility of labour in India.

(iii) As a result of the illiteracy and ignorance of the masses, they are seldom aware of the opportunities of employment. For the mobility of labour a correct knowledge of the place or professions where labour is in demand, is an essential condition. The obstacle to free movement of labour is further perpetuated owing to the lack of strong trade unions, (which usually make arrangements to collect and impart to their members information of vacant situations for employment) the complete absence of labour exchanges, and the want of State guidance.

(iv) Lack of adequate and cheap facilities of transport and communication and the consequent strange difficulties of the journey prevent an easy flow of labour. At the present day, however, the force of the argument is much weakened as the developments in the means of communication have been remarkable within a few decades but considering the extent of the country and poverty of the people they are held to be insufficient and expensive.

(v) Linguistic inconveniences, unfavourable geographical and climatic conditions, and the differing social customs of strange lands—all these factors combine to retard the free movement of labour. To work with men of different castes, professing different religions, speaking diverse languages and of widely differing customs is not, truly speaking, amenable to the taste of an average Indian labourer.

(vi) The Indian labourer is strongly tied to his native place, and his love for his family and associates proves sometimes too strong to be shaken off, even if he were offered better pecuniary advantages elsewhere.

(vii) The general poverty of the people is also a great obstacle in the way of free movement of labour. More often than not, the geographical mobility is handicapped because labourers for want of funds cannot move themselves with their family's belongings to those places where they expect better rewards.

(viii) Lastly, the want of a spirit of adventure, the general inertia setting upon the people, and the contented nature of an average Indian with the present state are also some of the important noticeable factors responsible for the immobility of Indian labour.

• The Changing Environments

But from the above the readers should not run away with the idea that Indian population is completely immobile. The conditions are not the same as obtained half a century ago or so. Many of the above-mentioned causes have lost their im-

portance, in face of the inroads of new Western ideas and the changed economic conditions. Caste-system no longer holds its universal sway over the people who are changing their occupations in defiance of caste restrictions. Economic considerations are proving much stronger than the sentimental ties. Moreover, as a result of the introduction of improved facilities of transport and communication together with the opening of new avenues giving better employment by the development of large-scale cotton, jute, coal, iron and tea industries, and the increasing pressure of population on land, labour is much more mobile today than what it was a few decades ago. In the initial stages of industrial development in India, many factories had to face severe difficulties due to the paucity of labour, but now all industrial centres are beginning to have a surplus of labour which shows that labour is tending to seek its proper channels. With the better and larger spread of general and technical education, with the gradual disappearance of religious scruples, social prejudices and caste restrictions, with the promise of improved economic conditions, and with the inculcation of the spirit of adventure and enterprise among the people, the time is not far to see when labour will be as fluid and mobile as it is found in any of the civilised countries of the world.

Influence of Social Customs

In India, as elsewhere in the world, custom has influenced man's life, actions and his economic relations to a very considerable degree. In civilised countries, custom is replaced by competition. But in India, though it is on the wane, even now the actions of the majority are governed more often by custom than by free competition. The late Mr. Justice Ranade observed: "The family and the caste are more powerful than the individual in determining his position in life. Self-interest in the shape of the desire for wealth is not absent but it is not the principal motto. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited competition except within certain pre-determined

groves or groups. Custom and State regulations are more powerful than competition and status more decisive in its influence than contract. Neither capital nor labour is mobile, enterprising and intelligent enough to shift from place to place. Wages and profit are fixed and not elastic and responsive to change of circumstances. Population follows its own law being cut down by disease and famine while production is almost stationary, the bumper harvest one year being needed to provide against the uncertainties of alternate bad seasons." Regarding the influence of custom, Mill points out that it is often the powerful protector of the weak against the strong and their sole protector where there are no laws or Government. But it also, on the contrary, tends to repress the individual, and to subordinate him to the community in a greater degree than is desirable. Competition helps to bring out the best in man.

The Caste System

The caste system is a peculiar institution in India and must be distinguished from the numerous social gradations obtainable in every country of the world. These latter are not divided into so many rigid and water-tight compartments, and there are no restrictions of any kind in the choice of occupations of an individual provided he possesses the requisite knowledge and training for doing that work. In India, on the contrary, the essential feature of the caste system is that birth "determines irrevocably the whole course of a man's social and domestic relations and he must live, eat, drink, dress, marry, and give in marriage in accordance with the usage of the community in which he was born." Castes are divided into three main types, the functional, the racial, and the sectarian. The most important of these are the functional castes, representing the various occupations that were followed by a group of persons in earlier times.

Undoubtedly, the caste system based as it was originally on economic division of functions, has promoted professional skill and dexterity and helped to preserve the various arts and

industries of the country. Dexterity once acquired was handed down from father to son as the former always taught the latter his trade secrets more willingly and carefully than any other tutor. It also fostered the spirit of brotherhood among members of the same caste and gave protection to the weaker members of the community. Again, the institution of caste, as the biological studies inform us, has prevented the deterioration of the higher races and maintained the integrity of the Hindu Society by preserving the physical heredity of the people because the system definitely sets itself against any intermarriage with the inferiors.

Whatever advantages might have been conferred by the caste system in days gone by, under modern changed conditions of production and distribution the rigidity of the system is a great obstacle to the free working of the economic forces of competition and to the full attainment of the economic efficiency of our labouring classes. It prevents the free flow of labour from profession to profession with the result that certain occupations are overcrowded while others starve owing to paucity of labour. This limitation of competition leads to inequality of wages in different occupations to the great detriment of the total national productivity. The system also acts as a bar to the progress of large-scale enterprise due to the lack of speedy adjustment between demand for and supply of a particular kind of labour. Large-scale production requires the co-operation of different factors of production which is conspicuous by its absence due to the presence of the feeling of class hatred against one another. The caste system does not recognise dignity of labour and is antagonistic to the principle of equality. It has degenerated into an engine of social oppression. The depressed classes are subjected to barbarous humiliation and to many disabilities not only social but economic. The barriers of caste, however, are breaking down day by day in consequence of which hereditary occupations under the stress of economic circumstances are being given up with a view to adopt more lucrative businesses.

The Joint Family System

The institution of joint family obtainable in almost every part of India is another characteristic feature of the Hindu Society. In the West, the family generally consists of a husband, a wife, and the minor children. In India, the family includes, in addition to the above, many more members including even distant relatives. The corporate character of a joint family is noticeable not only as regards property, but also as regards food and worship. It is a sort of corporation in which all the members are held in subordination by the head and where every member earns according to his capacity and gets according to his need.

The advantages accruing from the joint family system are many. The chief merit of it lies in the fact that it guarantees a minimum of subsistence to all the members in the family. The family looks to the best interests of the members, makes arrangements for their marriages for the perpetuation of family culture and traditions, and takes care of the helpless orphans and unprotected widows. The system affords a good asylum to the aged, the infirm and the poor who are given work, suited to their strength and capacity thus, rendering the State help in the shape of work-houses, etc., superfluous. In the field of consumption, much economy 'is effected by preventing duplication of household equipment and establishment,' and thus, a cheaper living is worked out. Apart from the economic advantages, the joint family system having its foundations on the virtues of affection and self-contentment fosters a spirit of selflessness, discipline, mutual respect and sacrifice, and produces a happy and contented home wherein each takes pride in the progress and prosperity of the other. The success or otherwise of a family depends largely on the presence or absence of judicial qualities in the head.

But in modern times, the family system is showing signs of disintegration owing to the individualistic spirit created by the Western civilisation, culture and ideals. The intensification

of the struggle for existence is another contributory cause in the dissolution of the joint family system. The system from the economic point of view has certain very objectionable points. It encourages indolence and stifles all energy for, when the barest means of subsistence are guaranteed to every member, some of them are apt to lose the incentive to work. Consequently, parasites begin to flourish in every family and bring about its breakdown. Again, the system acts as a deterrent to the accumulation of capital as the earning of an individual is distributed among all the members of the family. Further, it checks the free mobility of labour as the family affection binds them to their native places and if they shift to some outside place in order to improve their economic strength they invariably cherish the hope of returning to their homes. Although the advantages are overborne by the defects considered from the economic point of view, yet the rank individualism of the West which is a negation of social harmony should not be allowed to have a full play in India.

WAGES IN INDIA

"The great bulk of the labouring class in India are men who work on their own account and not for an employer. The rate of wages which appears to be the paramount question to the vast majority of the people of civilised lands, is a matter of very high concern to the working class of India." The remuneration for services rendered in the rural areas is governed by customs. The labourers receive their wages in kind at the harvest time and remain unapplied by a rise or fall of prices. A labourer prefers a low rate of wages in his own village instead of taking advantage of high wages prevailing in cities, but now he is undergoing a silent transformation due to the fact that prejudices and conservatism are disappearing and a new demand for labour is being created by the modern industrial concerns. Money economy is replacing the old customary payments for services made in kind. The rate of wages is also rising slowly with the increase in the efficiency of the labouring classes. The

improvement of public health, eradication of diseases, general welfare arrangements, the various Acts passed by the State to safeguard the interests of the labouring classes and the activities of the International Labour Organization, will improve the lot and earnings of the labouring classes in India. People have realised that cheap labour is really a dear labour.

Average daily or monthly earnings of workers in India

Occupations	Usual period of payment	Rate in cities	Rate in towns and villages	
		Rs.	Rs.	
Mistries ..	Monthly	40 to 60	30 to 35	
Steam Engine Drivers.	..	40 to 50	25 to 40	
Motor Drivers	..	30 to 40	20 to 25	
Firemen	20 to 25	15 to 18	
Proof Readers..	..	40 to 75		
Compositors	30 to 35		
Weavers ..	Daily	1 2 0	0 12 0	
Spinners	0 14 0	0 10 0	
Coal miners	0 12 0		
Coolies in Tea plantations.	..			
(a) Men	0 5 6		
(b) Women	0 3 0		
(c) Children..	..	0 1 0		
Masons	1 0 0	0 12 0	
Bhisties	0 10 0	0 6 0	
Carpenters	1 2 0	0 8 0	Or 24 seers of grain per plough per cultivator.
Blacksmiths	1 4 0	0 10 0	As above.
Domestic servants.	..	0 5 0	0 3 6	
Semi-skilled workers.	..	0 12 0	0 9 0	Or a fixed quantity of grain at the time of harvest.
Unskilled workers.	..			
(a) Men	0 5 6	0 4 0	
(b) Women	0 4 6	0 3 0	
(c) Children..	..	0 3 0	0 2 0	
Barbers	0 10 0	0 6 0	6 seers per adult member per year.
Washerman	0 12 0	0 7 0	" "
Cobblers	1 4 0	0 10 0	" "
Village Teacher	Monthly		15 0 0	

CHAPTER XXII

INTEREST

The Definition of Interest

Interest is generally defined as the price paid for the services of capital in the field of production. Prof. Carver defines it as "the income which capital returns to its owner whether he lends it or employs it himself in his own business." From the point of view of distribution, "it is the share of income that is assigned to capital goods, or more accurately to the owners of such goods for the part those goods play in production."

But these definitions are only one-sided, as they take into account only the productivity of capital and the idea of sacrifice or abstinence in the postponement of an enjoyment on the part of those who save and lend is wholly neglected. In order to arrive at a true definition, we must view it from two sides—the side of the borrower, and that of the lender. Looking it from the side of the borrowers it may be affirmed that capital is required because it is productive and serviceable to the community which in order to utilize these services for its own benefit is prepared to give interest. Capital can only be produced by saving which often needs certain sacrifices or waitings on the part of the people who postpone their present pleasures for the future and thus, bring capital into existence. In order to secure the control of this capital some inducement or reward must be offered to the capitalists. In order to explain interest both from the points of view of borrowers and lenders, it is defined as the price for the productivity or services of capital, paid to the capitalist for his waiting or abstinence which he has undergone in order to save it.

Gross and Net Interest

The term "interest" carries with it different shades of meaning. What we call in our everyday life as interest is in reality "gross interest" which is different from what we call in Economics as "net interest." Gross interest is much wider in scope than the net interest and is composed of the various elements including net interest, the former varies from country to country, from place to place, from man to man at one and the same time, the latter is (taking the complete mobility of capital for granted) the same at all places and with all the persons at one and the same time. The main cause for the variation in the gross interest is the absence or presence of the various elements at different places and with different individuals. The following are the various elements—the different charges paid in the form of interest—that go to make up the gross interest:—

1. *The reward for waiting or net or pure interest.* This portion of the gross interest which is a payment for the use of capital without any allowance for risk or any other factor is termed as pure or net interest; all other charges are the prices exacted for the services rendered by the capitalist to the debtors. Whenever gross interest and net interest tend to coincide or there is a very small margin of difference between the two it must automatically be assumed that this is "a payment for the loan of capital when no risk, no inconvenience and no work are entailed upon the capitalist because of the loan."

2. *Insurance against risk of loss.* Every act of lending involves some sort of risk because of futurity which is so uncertain. An extra insurance premium over and above the net interest is made by the lender to cover any risk of loss which may arise due to any business contingency or due to some flaw in the character or business morality of the borrower. The risks to which a lender is exposed may be classified under two separate heads:—

- (a) *Trade risks.* The investment in a modern industry

is generally subject to great risks because its success depends largely upon speculation. Forward buying and selling, production for future consumption and for foreign and uncertain markets are everyday feature of a modern industry and a kind of necessity. All these entail grave risks which must be insured by the capitalists in the form of high interest charges.

(b) *Personal risks.* The personal risks vary greatly in different cases, according to the character or the business morality of the individual borrower. Ordinarily, a borrower possessing a secure credit can obtain a loan of capital at cheaper rates of interest than that person who is noted for his dishonesty and recalcitrancy in the repayment of his loans. The capitalist, on economic considerations, charges in the latter's case a high rate of interest to insure himself against possible losses.

3. *The earnings of management.* Certain kinds of investments require a good deal of management—administrative, legal and executive—which necessitates a great amount of botheration and trouble on the part of the lender. For this extra amount of trouble which he has to undergo in the form of keeping and maintaining the accounts of incomings and outgoings of his borrowers, he charges an additional remuneration in the shape of a higher gross interest, and what appears to the borrower as interest, is, in fact, from the point of view of the lender, earnings of management of a troublesome business, e.g., the *kist* system which demands a complete machinery for the distribution of the *kists* and the realisation of the monthly instalments. The greater the inconvenience experienced in the realisation of principal and interest, the higher will be the gross interest charged on that particular kind of loaning. Thus, the gross interest may be much higher than the pure or net interest or may sometimes coincide with the latter. Some or all of the above-mentioned payments when combined are termed as *gross interest*.

The Problem of Interest

Closely allied with the question of "interest" are the various

problems which require a clear exposition and some brief explanations. They are as follows:—

1. Should interest be paid?
2. Why is interest paid?
3. How is the rate of interest determined?

We shall discuss these problems *seriatim* under separate heads.

Should Interest be Paid?

The problem whether interest be paid or not has been a much debatable question for many centuries. The ancients denied absolutely the justifiability of taking interest. The Law of Moses among the Jews condemned interest, Plato forbade the taking of interest, Aristotle regarded interest as unnatural because he thought that money was "barren." The Laws of Islam forbid the taking of interest. The main cause of this trend of thought is to be found in the fact that in those times capital was borrowed not for productive but for consumption purposes. In those early days when there was little employment of capital for productive purposes, it was the poor and the needy who stood in need of credit for the satisfaction of his elementary wants and to tide over the period of distress and calamity and, therefore, the prohibition against interest-taking was considered justifiable on moral and ethical grounds. It was under these peculiar situations that the educated and enlightened opinion of the time waged a continuous war against the taking of interest.

But the contemporary Hindu opinion was different and the taking of interest was not prohibited altogether. The Laws of Manu gave their sanction in this respect and since the profession of moneylending is carried on in India from times immemorial and the community of moneylenders is not considered a disrespectable one, it can be safely concluded that the importance of taking interest and its justification was fully realised by the people of the country. The reasons for this solitary exception are not far to seek. India has been one of the most

leading commercial and industrial countries of the world from a very early period of human history, and as such, industry and commerce always sought the services rendered by the community of moneylenders. The importance of investment for productive purposes was clearly realised by the Indians at a very early stage and, that is why, the taking of interest in India was not looked upon as a "deadly sin" as in other countries of the world.

With the improvement in the means of communications and knowledge together with the new inventions, the development of trade, commerce and industry and increasing demand for capital for productive investments, there appeared a gradual change in the opinions of men regarding the payment of interest. In the course of time, the demand for capital for productive purposes began to occupy the foremost position among the borrowings in comparison to the demand for purposes of consumption. Money is now mostly borrowed for productive purposes with the aid of which fresh wealth is created and the borrowers give something out of this wealth to their creditors. Modern opinion, therefore, has brushed aside the old idea against the non-payment of interest.

Why is Interest Paid?—A Reward for Service

While defining interest we pointed out that from the point of view of the borrower, interest is the remuneration for the use of capital; it is a reward for the services rendered in production by capital. Interest is paid on capital because it gives a necessary service to the producer in the shape of increased production of goods and because this service would not be forthcoming unless a reward were paid for it.

In modern times, the greater portion of the borrowings are effected for the productive purposes and generally the modern borrower is a great business magnate. With the help of his borrowings which represent his capital in the form of capital goods such as tools, machinery, buildings, plants and raw materials, he secures through the economies of large scale production a considerable increase of output at a smaller cost per

unit. Out of this increased product, the debtor is enabled to pay something in return for the services rendered by capital. But at times it becomes a very difficult task to draw any fine distinction between the loans for industrial and consumption purposes, therefore, interest is justifiable in all the cases. Further, loans for consumption purposes would not be forthcoming if interest were not paid on them.

How is the Rate of Interest Determined?

Various attempts have been made from time to time to explain the nature of interest and how the rate of interest is determined. The most noteworthy and important theory that has influenced the economic thought for a considerably long period is the "Productivity Theory" of interest evolved by Malthus, Say, Carey, etc., which seeks to establish that interest is a price paid for *productive services* of capital; the "Abstinence Theory" propounded by Senior justifies interest on the ground that it is a reward for *abstaining* from the immediate consumption of wealth; the "Exploitation Theory" put forward by Karl Marx and Rodbertus tends to prove that interest arises from *exploitation*, from depriving the workmen of their legitimate portion of the total wealth produced by them. A fuller treatment of these theories may be read from some of the bigger treatises on Economics. For our purposes it is sufficient to remark that these different theories have been only partially true in the study of the determination of the rate of interest. Every theory seems to start with a particular aim in view and attach a special bearing either on the demand side or the supply side of the problem.

The latest and widely current theory is the "Demand and Supply Theory of Interest." According to this theory the rate of interest depends on the demand for and supply of capital and is fixed by the interaction of the forces which influence the borrowers and lenders at a particular time in a particular business or trade. Like the value of other commodities, the rate of interest is determined by the equilibrium of the demand

for and supply of capital. Prof. Marshall writes that interest being the price paid for the use of capital in any market, tends towards a level at which the aggregate demand for that capital in that market, at that rate of interest, is equal to the aggregate supply of capital forthcoming there at that rate.

The Demand for Capital. The demand for capital depends on the "productivity" of capital, always remembering, of course, that when we speak of the productivity of capital we mean the joint productivity of capital and labour. "Capital is demanded" as Penson states, "because there is an advantage to be gained from its employment." The demand comes mainly from those who wish to employ that capital with advantage or with anticipated advantage to themselves, e.g., from traders and manufacturers, private individuals and business people from the local authorities and the State itself. The combination of all the various forms of demand including the demand for consumption purposes makes up the *aggregate Demand for Capital*. It is a point to be borne in mind that every factor of production, in a productive undertaking, is employed upto the extent it is advantageous or profitable to the entrepreneur. The demand for capital, like other commodities and services, depends on its utility and productivity to the borrower. This productivity of capital fixes the maximum price which a borrower is willing to pay rather than go without the services rendered by capital.

The Supply of Capital. The accumulation or supply of capital, as previously discussed, depends upon the power and the will to save together with the opportunities available for investment in a particular country. To repeat, in the words of Marshall, the supply of capital is governed by a great variety of causes (i) custom, (ii) habits of self-control and realising the future, (iii) the power of family affection, (iv) security of life and property, (v) progress of knowledge and intelligence, (vi) facilities for the investment of capital, and above all (vii) the rate of interest. The rate of interest has a commanding influence on the accumulation of capital though it must be

noted that people will save even if the rate of interest is zero in order to make provision for a rainy day and old age. But in view of the fact that the creation of capital involves the postponement of present consumption of wealth and is attended with some sacrifice of 'waiting,' an adequate inducement in the form of the rate of interest has to be offered to attract a requisite fund of capital for the diverse requirements of the community. Different rates of interest will influence the savers in a variety of ways, many of whom will be willing to put forth their supply of capital at a lower rate of interest. Under such conditions, the rate of interest is determined by the reward or rate of return required to induce the 'marginal saver' to bring forth his supply of capital demanded in an industry. The supply of capital is also governed by the rate of interest. The higher the rate of interest the greater is the amount of saving and capital, the lower the rate of interest, the smaller is the amount of saving and capital.

The Rate of Interest. Having analysed the conditions of demand for and supply of capital, let us now try to understand how they act upon one another in the determination of the rate of net interest which practically involves no element of risk, nor any trouble of management and collection in the realisation of the invested amount of money.

DEMAND Amount of capital that would be borrowed.	Rate of interest	SUPPLY Amount of capital that would be lent.
Rs.		Rs.
1,00,000	5 per cent	10,00,000
2,00,000	4½ "	8,00,000
3,00,000	4 "	6,00,000
5,00,000	3½ "	5,00,000
8,00,000	3 "	2,00,000
10,00,000	2 "	1,00,000

If the rate of interest be 4 per cent the demand would amount to Rs. 3,00,000 and the supply would be equal to Rs. 6,00,000. In this case, the supply being greater than the demand, the more eager lenders would be willing to lend at a lower rate of interest. On the contrary, if the rate were 3 per cent the demand would be for Rs. 8,00,000 and the supply would shrink to Rs. 2,00,000. In this case, demand being greater than supply, the more eager borrowers would be willing to pay a higher rate of interest. The rate of interest would settle between 4 and 3 per cent. In accordance with our given schedule, the rate at which there would be an equilibrium between demand and supply is $3\frac{1}{2}$ per cent a rate at which equal quantities of capital, viz., Rs. 5,00,000 are demanded and supplied, and at which point the marginal productivity of capital, as measured in money, will tend to equalise the sacrifices of the marginal saver.

Different Rates of Interest

In the foregoing section, we have examined the factors working in the determination of interest rates and perceived that this pure or net interests—the price of capital—is determined, like the prices of all other commodities and services, by the interaction of demand for and supply of capital. Hence, there should be one single rate prevailing at a particular time. But in the business world we notice remarkable variations in the rates of interest charged by moneylenders, pawn-brokers, private merchants and capitalists, banking institutions and the public authorities from their respective customers. The interest rates generally vary from 3 per cent to 7, 9, 12, 25, 75 (one anna per month on every rupee borrowed) per cent. How such astounding differences can be accounted for? The reason for this variation is to be found in the fact that what a layman takes to be interest, is 'gross interest' as distinguished from 'net interest.' Gross interest, as we have explained, includes beside the payment for the use of capital, other charges of insurance against risk and expenses of management in respect of the loan

advanced to the borrower. The 'gross interest' varies from industry to industry and from individual to individual due to the varying degrees of risk and trouble of management and collection involved in an investment. Net interest tends to remain the same at a particular period of time. The rates of interest shall have a tendency to remain high so long as the security is wanting and the business morality is not fully developed. It is for this reason that in backward and uncivilised countries, where the means of subsistence are insufficient and the conditions of life and property unstable, the rates of interest are generally higher than in the civilised ones.

Again, different rates of interest are found prevailing in different countries because of the immobility of capital to foreign countries. The disinclination of an investor to place his capital in foreign investments brings about wide differences in the local rates of interest. The "disinclination of capital to emigrate" can be ascribed to the hesitation of investors who do not like to lend in foreign countries because they feel that the foreign administration may not be fair and sympathetic in respect of credit claims, etc. Secondly, the apprehension of an international war which might lead to a suspension of interest-payments, if not forfeiture of the entire invested capital, forbids lenders to send their supply of capital even if the rates are somewhat more remunerative. These causes in addition to the causes already examined above may operate to create differences in the rates of interest in different countries.

The Tendency of the Rate of Interest to Fall

An intelligent study of the rate of interest and its examination by the economists has shown them that there has been a noteworthy tendency, with the economic and social progress of society, for the rate of interest to decline. In spite of the continuous demand for new capital for the expansion and maintenance of industrial equipment and commercial requirement; in spite of our extended use of wealth in unproductive consumption for the satisfaction of comforts and luxuries in all

their new varieties; and in spite of the periodic destruction of capital supplies or the temporary stoppage in the course of accumulation in war time and other periods of disorder or natural calamity, wealth in all its various forms tends strongly and continually to increase. This increase in wealth brings about an increased accumulation of capital as a result of which the marginal utility of capital to the borrowers decreases and so also the rate of interest.

It has been maintained by a few economists that in the course of time there is every possibility of *the rate of interest falling to zero*. In pure theory such a state is conceivable when the rate of interest with the ever-increasing supply of capital may continue to decline until it falls to zero. But the actual conditions of the industrial and business world point us the inaccuracy and inexactitude of such a statement. Firstly, when the rate of interest is zero the marginal savers, who are induced to save chiefly by the inducement or reward offered to them in the shape of interest, will spend their surplus income in the present gratification of their wants and those who will save will tend to hoard it or spend it more lavishly in the immediate pleasures of self-indulgence as a result of which the total supply of capital will be diminished and fall short of the demand. Secondly, every investment does involve some risk, inconvenience and expense and, therefore, interest must persist. As a matter of fact the entire structure of modern industrial organisation is far more hazardous than it has ever been so. Thirdly, the destruction of wealth that usually takes place either through war, flood, conflagration or some other freak of nature requires to be repaired as a result of which fresh demand for capital is created. Again, an increase of population, new inventions involving expensive machinery, reclamation of new and waste lands, new modes of living are all continually creating the demand for capital to a considerable degree. All the above-mentioned factors prevent the rate of interest or the marginal productivity of capital from falling to zero and, therefore, there is no likelihood of the rate of interest ever falling to zero.

Interest and Rent

Interest is a payment for the use of capital; rent is the income derived from the ownership of land and other free gifts of nature. As such both the incomes can be said to be accruing from 'material aids' to production. During short periods there is a great resemblance between interest and rent because in the short period the supply of capital goods, like the supply of land, is inelastic and cannot be immediately increased in response to an increased demand for them. That is why the returns on capital goods whose supply is limited, though for a temporary period, have been termed as *quasi-rent*—as if they were in the nature of rent. But in the long period the resemblance ceases to operate because, unlike the supply of land, the supply of capital goods can be increased positively to equate the enhanced demand for it. It is this closer affinity between interest and rent which has led Prof. Marshall to state that "rent, quasi-rent and interest are three species of the same genus."

Land is a free gift of nature its supply being inelastic; capital is a product of human labour and can be increased considerably with a rise in demand for it. In this respect interest differs essentially from rent. The latter tends to rise with the progress of society and the increase of population while the former tends to fall under the same conditions. Further, the rate of net interest tends to equality whereas rent differs considerably due to the relative advantages of fertility or of situation or both possessed by a land over the least productive one. Again, the amount of rent is determined by the existence of no-rent land from which is measured upwards the surplus of produce of the lands bearing rent but in the case of capital we do not find any no-interest capital for all portions of capital bear the same interest. Then, again, rent does not enter into the price of agricultural produce either on the extensive margin or on the intensive margin, whereas interest does so and plays an important role in the cost of production.

In many cases land and capital are found mingled together

and, therefore, the distinction between rent and interest is not very apparent and clearly discernible. For example, the capital that has been permanently invested in land for effecting improvements in its productivity becomes indistinguishable from the natural and permanent conditions of land and gets so assimilated to it that the entire return is taken to be rent which, from the point of view of economic theory, consists of interest proper and rent. Again, the rent of buildings is made up of two elements, viz., interest on capital invested in the construction, repairs and renewal of the buildings and rent arising out of the use of land upon which the building is raised and any situational advantage possessed by that plot of land.

The Causes and Other Peculiarities of High Interest Rates in India

The progress of the country from the industrial, commercial and banking standpoints has been shockingly a halting one; the various types of banking institutions are not fully developed, organised and co-ordinated and they fall short of the demand of the country. Industrial banking facilities do not exist to finance industries on an adequate scale and their capacity to meet their needs is very limited. The hoarding habit is still rampant and holds the field to a considerable degree. The vast rural areas utterly lack any form of modern banking and credit facilities except the *mabajan* or the *sabukar* who holds a monopolistic position, as the co-operative credit societies and land mortgage banking facilities are very inadequate to meet the requirements of the cultivators.

(i) In view of the absence of a well-regulated banking system and the paucity of capital caused chiefly by the poverty, thriftlessness and hoarding tendency of the Indian people, the rates of interest, net as well as gross, generally prevalent throughout India are comparatively high if compared with other progressive countries. In some cases they are exorbitant and tortuous bringing about adverse economic effects in the way of industrial improvement. Although the Indian moneylender

has earned the notoriety of a 'Shylock' for his usurious rate of interest and other malpractices, yet his tendency of charging a higher rate of interest than the joint-stock banks or co-operative institutions can be justified on economic considerations, because he runs terrible risks with regard to the payment of the loan.

(ii) The rate of interest tends to go high in view of the fact that a large amount of capital is still borrowed for purposes of consumption as contrasted with the capital employed for productive purposes and because of the lack of collateral securities with the borrowers whose capacity to save after the satisfaction of their necessities of life is very limited. In such a state of economic forces, the moneylenders charge a high rate of interest to cover the risks and difficulties of management experienced in the realisation of their dues.

(iii) Another peculiarity of interest rates is found in the fact that they vary a great deal from locality to locality much more markedly than in any other country. They are commonly high in rural localities than in urban areas where the banking and credit facilities are available on a much larger scale and the rates are fairly competitive.

(iv) Lastly, wide fluctuations in the rate of interest are perceived from season to season. India is predominantly an agricultural country. At each harvest, particularly the *rabi* one, a great stringency is felt in the money market when there is a universal mobilization of crops from rural areas to urban centres for purposes of export, etc. This period happens to coincide with the marriage season and a further demand for money is thereby created. As soon as the seasonal demand for capital is satisfied, the bank rate falls again. This constant variation in the rate of interest from season to season and from year to year is a great hindrance in the industrial development of the country.

Mobility of Capital

Some theoretical considerations. Mobility of capital, like

the mobility of labour, means the free flow or movement of capital in response to higher interest from place to place or from industry to industry. Capital is more mobile than labour because capital, unlike the labourer who must deliver himself personally on the spot of work, can be invested at any place or in any industry promising a higher rate of interest without being bothered by the climatic conditions, language difficulties, the distance, and the absence from kith and kin—factors which determine to a considerable degree the mobility of labour. There are usually two ways in which capital can be made mobile, namely, either by direct investment in productive concerns by purchasing shares of a joint-stock business, in Government or some other kind of stock, or indirectly by depositing in the banking institutions which manage to put credit facilities into the hands of those who are able and willing to make a good use of it. If there be perfect mobility of capital, both in respect of places and industries, then the returns on invested capital would tend to equalise all over the country, but when the rates of interest vary from one place to another and from one industry to another it indicates that perfect mobility of capital is not possible within the range of practical life.

Mobility of capital depends upon the form it assumes. Circulating capital is more mobile than fixed capital. Liquid capital, on a slight inducement of a higher rate of interest in some particular industry, can readily be invested. The holders of shares can sell away their shares and transfer them but it is otherwise with the fixed capital. Capital once sunken in buildings, tools, machinery, etc., peculiar to an industry cannot be transferred even if there were greater prospects of returns unless their full value has been realised.

Security of investment or absence of risks from any loss is a necessary concomitant of mobility of capital. Most of the investors prefer a safe investment of their capital at a lower rate of interest and abstain from hazardous and uncertain businesses with prospects of a higher rate of interest. Again, it depends upon the industrial and commercial progress achieved by a

country. In an agricultural country, the movement of capital is not so rapid as it is found in an industrialised country because of the large requirements of capital for the various productive concerns. The rapid means of communication such as telephone, telegraph and radio, the banking institutions, and the share of stock markets are further important agencies that tend to promote the mobility of capital. Lastly, the political stability and peaceful atmosphere of the country is greatly conducive to an easy flow of capital from one part of the country to another for purposes of productive employment.

Mobility and Supply of Capital as found in India. It is an admitted fact that without an adequate supply of capital and its free flow into productive channels no country can aspire to achieve industrial and commercial development and economic salvation. The modern processes of production require a colossal fund of capital which, in the absence of a proper feeding, would starve, decay and bring about an industrial retrogression extremely detrimental to the economic existence of a country. Therefore, an adequate supply of capital that would oil the wheels of the productive processes and set them going with ever-increasing pace is an indispensable concomitant of industrial progress and economic advancement.

In India, like the industrial countries of the world, capital is demanded for commercial, industrial and agricultural requirements and for financing those stupendous schemes which are usually undertaken by the Government of India, Provincial and Local Governments. The indigenous capital falling far short of the country's requirements, a large supply of foreign capital in the form of sterling loans of the Government of India and the capital of the foreign joint-stock companies, came to be invested in India in banking and insurance businesses, jute and iron industries, tea and coffee plantations, railways and mining enterprises.

In our country on account of the general backwardness and poverty of the people, savings have been too slow and inadequate and their mobilisation into capital resources for pro-

ductive purposes has been all the more scarce. In the opinion of the External Capital Committee, 'There is sufficient *potential* capital in India to meet the large industrial requirements, but that it is timid, conservative and requires to be drawn out.' Every year enormous quantities of capital resources are running to waste which, if arrested, will not only replace the external capital to a considerable degree but also stream forth into new channels of production which have so far received only a scanty attention of our industrialists. Our potential supply of capital is either unproductively used or buried in the bowels of the earth, or locked up in bullion, jewellery and buildings or frozen through a purchase or mortgage of land which appeals still to the multitude as it seems to give them an air of superiority and a decisive status in society.

It is a redeeming tendency to observe that we have now realised to appreciate the advantages of saving and investment. During the last twenty-five years, capital is becoming more mobile as is represented by an increase in the number of banks with their increasing deposits, but it has flown into well-tried and well-beaten channels only, e.g., cotton, leather, silk, paper, sugar, flour-milling, cotton ginning and paddy-husking industries, where it has sometimes even resulted in over-investment. Security of investment is an essential condition in the mobilisation of capital resources specially for those who are passing through a transitional stage of modern banking and industrial economy. The recent investments made in iron works, cement concerns, cigarette factories, hydro-electric installations, and, above all, sugar mills in the United Provinces, just after the protection granted by the Government, bear a strong testimony to the fact that Indian capital is no longer shy and timid. The ready response of the investing public to the Government rupee loans floated now and then, the huge deposits and cash certificates of the postal savings banks, the increasing business of Life Insurance Companies, the shares issued by the Reserve Bank of India, amply prove the validity of the aforesaid statement. Many of the big industrial enterprises and commercial concerns

are now financed by Indian capital and it is expected that with increasing facilities of banking specially of industrial finance, much of the potential capital that now lies deep buried unproductively will come out for industrial, agricultural and commercial developments.

Our Need

Banking facilities are thoroughly inadequate for tapping the entire resources of the country and for mobilizing them into capital resources for her industrial development. There are numerous urban places of considerable commercial importance which are not served by any banking agency; while rural areas are totally bankrupt of banking facilities, and cultivators know not the name of investment. In order to mobilise the meagre savings of the cultivators, landowners and petty traders, the establishment of co-operative institutions and postal savings banks at an early date seems to be an urgent need of the rural areas.

Industrial banking facilities of a specialised character, as found in the Western countries or in Japan, are conspicuous by their absence in India. In our country, capital for industrial development is not easily forthcoming from the public. This immobility of capital is due to a variety of causes. Firstly, there is no recognised method in India by which the general public can obtain information, advice or assistance as regards industrial investments. Secondly, the failure or lack of success of many of the industries started in India has shaken the confidence of the public in industrial investments to a certain extent. Lastly, the fiscal policy of the Government which does not guarantee protection against foreign competition seems to be a powerful check to the free flow of capital to new and less popular channels of production. In view of these drawbacks and deficiencies found associated with the industrial finance in India, the Central Banking Enquiry Committee have recommended the establishment of a "Provincial Industrial Corporation" for every province, with branches, if necessary, and with

capital initially or permanently supplied by the Provincial Governments. Their establishment in the various provinces is anxiously awaited.

CHAPTER XXIII

RURAL INDEBTEDNESS IN INDIA

It is necessary to inquire into the causes of rural indebtedness which proves a great stumbling-block in every scheme of rural reconstruction. The condition of the Indian cultivators is at once miserable. Their poverty is appalling, their indebtedness is inextricable, and their income is ridiculously insignificant. Writing about the indebtedness of the cultivators, the Royal Agricultural Commission stated: "No one, we trust, desires to witness a continuation of a system under which people are born in debt, live in debt and die in debt, passing on their burden to those who follow. That there are large numbers of hopelessly insolvent debtors in rural areas is generally admitted and we cannot regard it as making for health in the body politic that they should be allowed to remain without hope and without help." Various estimates that have been made to find out the extent of the agrarian indebtedness go to show that the problem has assumed alarming dimensions. Recently the Provincial Banking Enquiry Committees have estimated the rural indebtedness amounting to over Rs. 900 crores and the worst feature of it is that it has been distinctly on the increase. It is said that 56 to 78 per cent of the cultivators are involved in debt and most of it is secured by mortgage of land.

Causes of Rural Indebtedness

So many factors have combined to bring about this important problem of rural indebtedness that it becomes difficult to separate the cause from the effect. Controversy may arise whether or not a certain factor is the cause or the effect of rural indebtedness. Nevertheless, a brief attempt will be made in the following pages to point out the few important causes

which have conspired to bring this dire situation before our country.

(i) One of the primary reasons of the chronic indebtedness is to be found in the fact that agriculture as a profession has ceased to be a paying one in the country where about 73 per cent of the population depend directly upon it. Owing to the heavy annual interest charges, the excessive pressure of the population on land, resulting in minute sub-division, and uneconomic fragmentation of holdings, the loss of industrial and subsidiary occupations due to a large influx of cheap machine-made goods from abroad, the loss resulting from unorganised marketing of the agricultural products, the cultivator is not making any profits from his land. He is engaged in agriculture not for a net return but for subsistence and because he cannot find profitable investment of his labour elsewhere. The production from land is not enough to satisfy his needs which force him to fall in debt from which extrication becomes difficult, in spite of his patient and hard toil on fields and the most frugal ways of living.

(ii) *The insecurity of harvests.* The country is subject to frequent failures of rains and the resultant famines. Agriculture is a gamble in rain. In every five years, it is estimated, there is one good year, one bad year and three indifferent years from the point of view of rainfall. Occasional ravages of famines with all their severity cause endless miseries to millions and break the backbone of the peasantry, and the cultivator, having no reserve to fall back upon in times of distress, easily falls into the clutches of a moneylender. Failures of harvest, due to drought or floods, conflagration, the uncontrollable swarms of locusts, hail or storm, force even the thrifty to fall into the hands of a moneylender.

(iii) *The loss of cattle due to famine and disease.* Owing to frequent failures of the Monsoons resulting in a scarcity of fodder and water, many cattle die of starvation. The sudden loss of cattle due to diseases like rinderpest affects the cultivator adversely and necessarily sends him to the moneylender, in the absence

of any cattle insurance scheme from which he may recoup his losses.

(iv) *The excessive litigation.* Disputes about land and money dealings and other petty points are a potent cause of the ruin of the cultivators. The multiplication of pleaders, as a result of the extinction of the village Panchayats, has created a situation altogether different. The old village harmony and co-operative instinct is superseded by feud and factiousness. The effect of heavy expenditure and time upon the slender purse of the cultivator for purchasing justice in the Courts of Law can easily be imagined.

(v) *The moneylender and the provision of credit.* Agriculture requires credit all the world over, to which India is no exception; the agriculturists realise their income only at harvest times while the expenditure is distributed over all the twelve months. In rural areas, there are no banking facilities to finance agriculturists for carrying on their farming operations, as are to be obtained in the cities. The provision of credit for the poor agriculturists, under the present stage of rural credit organisation, is made by the village *mahajan* who by taking advantage of the tenant's rank ignorance and dire necessity charges unscrupulously high rates of interest. A well-known author in pointing out the evil effects of usury states: It is usury—"the rankest, most extortionate, most merciless usury—which eats the marrow out of the bones of the ryot and condemns him to a life of penury and slavery, in which not only is economic production hopeless, but in which also energy and will become paralysed and man sinks down beaten into a state of resigned fatalism from which hope is shut out and in which life drags on wearily and unprofitably as if with no object in view." In the absence of any other better system of credit organisation, the village moneylender plays a useful part in the rural economy but the price exacted for the services rendered to the cultivator is too extortionate and his rapacious habits to defraud and inveigle him into his vicious net by divesting him of his property are too questionable.

(vi) *The extravagance of the cultivator.* Apparently, it seems a big contradiction to stigmatize the Indian cultivator as extravagant in his expenditure; he works under semi-starvation and goes half naked. In spite of his being a most frugal and abstemious sort of man, sometimes at the call of some religious or social ceremony sanctioned by custom and tradition, he is apt to carry expenditure to extravagant limits forgetting the economics of thrift. The reckless expenditure on marriages (specially when we consider the fact that large amounts of money are to be spent in the purchase of brides in many rural localities) and other social festivities bears practically no relation to his economic ability.

(vii) *Ancestral debt.* Among the causes responsible for the colossal indebtedness, ancestral debts must be given a high place. Many an agriculturist starts his career with a heavy burden of ancestral debt and drags the loan for the whole of his life, taking it to be a religious and social obligation with the consequence that the burden goes on accumulating and becomes hereditary. An Indian cultivator takes birth as a debtor, lives as a debtor and dies as a debtor.

(viii) *Change in the economic position of the agriculturist.* 'On the strength of the enhanced value of land because of the general economic progress specially in the sphere of communications, he is tempted to borrow more and the lender hesitates less to advance for the law has given a greater security to the lender for the recovery of loans.' As a result of this change a large number of peasant proprietors have become landless, their property being devoured by their creditors under the safe protection of the law.

(ix) *Illiteracy.* Illiteracy forms one of the principal obstacles to his progress. Suffice it to say that owing to his ignorance and illiteracy, he is being everywhere cheated both in private and public life. They easily fall into the clutches of the shrewd and intelligent owing to their simplicity and ignorance. 'The moneylender tempted him to borrow, the lawyer to quarrel and the trader to waste.'

(x) *Land Revenue Policy and indebtedness.* Some thinkers have come to regard land revenue policy of the Government as responsible to a certain extent for agricultural indebtedness. It is contended that today as a result of an inelastic system of revenue collection together with the fixed payment in cash no due regard is taken of the character of the season. Without going into the details of the controversial question, it can be said that the cultivator, in the absence of any reserve at the time of a famine, is forced to borrow to pay off the Government demands.

Remedial Measures of the Government

The Government of India realised the gravity of the situation in the early seventies of the last century and since then several measures have been enacted with a view to ameliorate the deplorable lot of the debt-ridden peasantry. The Land Improvement Loans Act and the Agricultural Loans Act, the former to enable cultivators to obtain loans from the Government at a low rate of interest for productive purposes such as purchase of improved agricultural appliances and improvement of land, and the latter for current agricultural purposes such as the purchase of seed, cattle, etc., for areas affected by famine, were passed in 1883 and 1884, whereby Government advanced takkavi loans to the cultivators on the security of their land to be repaid in easy instalments. But owing to so many rigidities and formalities, these takkavi loans could not become popular with the agriculturists. The Land Alienation Act of the Punjab was passed in 1900, with a view to restrict the land transfers and to protect the lands of the cultivating classes from passing into the hands of the non-agricultural classes. But fresh difficulties arose for a new class of moneylenders amongst the agriculturists sprang up and the problem remained where it was. Various other measures were enacted to cope with the monstrous indebtedness but none could mitigate the real hardships of the poverty-stricken cultivators. The U. P. Government has passed many Acts, e.g., The Agriculturists' Relief Act, The Encum-

bered Estates Act, The Usurious Loans Act of 1934 with a view to make provision for the relief of the agriculturists from indebtedness but we have to wait and see their results.

The Government of Madras deputed Sir Frederick Nicholson to Europe to enquire into and report on the possibilities of introducing in the Madras Presidency a system of agricultural or other land banks. In his famous Report published in 1895-97 he pleaded strongly for the introduction of co-operative credit societies in India. Nicholson summed up his conclusions in two notable words, "Find Raiffeisen." In 1901, a committee under the presidency of Sir Edward Law was appointed by the Government of India to consider the question of introducing co-operative societies in India. As a result of the committee's recommendations, the Co-operative Credit Societies Act of 1904 was passed.

What is Co-operation?

The term Co-operation, in the sense in which it is used by economists, namely a special form of economic organisation in which people work together for definite business purposes under certain definite business conditions, is somewhat difficult to define. Perhaps the nearest approach to a scientific definition embracing all the salient features of a co-operative society would be to say that co-operation is an organisation wherein the weak voluntarily associate together on a basis of equality for lifting themselves up out of weakness into strength and for the promotion of their common economic interest by securing the benefits of a large-scale dealing, be it in credit, production, consumption or distribution, through common ownership and democratic management of the instruments of wealth. The essence of co-operation is that *each shall work for all and all for each* in the realisation of their common good. In co-operation there is an attempt to realise the idea of brotherhood and common fellowship and to eliminate the idea of a competitive system. Co-operation is, in fact, a great constructive force; it has no class hatred and it does not believe in the struggle for

existence; it is a revolt against modern capitalism and is in complete antagonism with competition. "Self-help" and 'self-reliance' is its guiding motto.

Its Historical Backgrounds

The idea of co-operative credit was started in Germany, in the middle of the last century by two great philanthropists who were deeply stirred by the sufferings of the poor at the hands of the extortionate moneylenders. One of them, Schulze-Delitzsch (1808-83), started urban credit societies to furnish credit to small traders, employers, artisans and the middle classmen in towns. The other was Raiffeisen who organised rural credit and later on other forms of co-operative societies for the poor agriculturists.

As all the co-operative societies in India have been based either upon the Raiffeisen or the Schulze-Delitzsch types of societies, it is necessary to understand the main features of each of them.

The chief features of the Raiffeisen Societies are the following:—(i) limitation of area so as to secure mutual personal knowledge on the part of members; (ii) shares, if any, of very small value so as to prevent dividend-hunting and to enable even the poorest persons to become members; (iii) permanent indivisible reserve fund; (iv) unlimited liability of all members for all debts of their society in order to ensure better credit and mutual supervision; (v) loans only for productive purposes, and to members alone; (vi) credit for relatively long periods with facilities for repayment by instalments; (vii) the determination every year, by the members of each society, at a general meeting, of the maximum credit that may be held by the individual members at any time as well as of the loans that may be taken by the society, (viii) absence of profit-seeking; dividends, if any, being usually limited; (ix) office holders, not paid for their services and expenditure is kept as low as possible; (x) provision is made for purchasing of agricultural requisites for sale and hire to members, and (xi) promotion of

the moral as well as the social advancement of the members.

The chief features of the Schulze-Delitzsch Bank are: (i) wider area of operation; (ii) the shares are high in value but the amount is payable by small instalments which serve the object of compulsory saving; (iii) there is no indivisible reserve though there is the usual reserve built by carrying a portion of the annual profit to the extent of say 20 per cent; (iv) limited liability; (v) short-term credit; (vi) high-dividend, there being no limitation on the rate; (vii) paid administration to secure efficiency; (viii) there is no personal relationship and mutual touch among the members, and (ix) special emphasis is laid on the business aspect of the society rather than on the moral one.

Rural and Urban Societies

In 1904 provision was made for the starting of only two types of credit societies, viz., 'rural' and 'urban,' and it was laid down that four-fifths of the members must be, in the first case, agriculturists, and in the latter, non-agriculturists. In the case of rural societies, unlimited liability was the rule; in the urban societies the matter was left to the choice of the society. Profits in the case of a rural society, were to be carried to a reserve fund, or applied to the reduction of the rate of interest, and a bonus might be distributed only when requirements in these directions have been fully met; in the case of urban societies, no dividend was payable until one-fourth of the profits in a year were carried to the reserve fund. Limitations were also placed on the size of the share capital where this was raised; no member was to hold more than one-fifth of the shares; the total value of an individual member's share could not exceed Rs. 4,000; nor could he have more than one vote. Certain privileges were conferred upon the credit societies, viz., provision was made for exemption from income-tax, stamp duties and registration fees. In every province, a Registrar was appointed to exercise supervision over the organisation and control of the movement, and to become the guide, friend and philosopher of the movement.

Primary Agricultural Credit Societies

In view of the predominance of the primary agricultural credit societies, it is both interesting and instructive to understand their working. By a Primary Society we mean that type of co-operative institution which deals with and renders service only to individuals and not to societies. The structure of a primary agricultural credit society is very simple.

(i) *Size and area of operation.* Any association of not less than ten members might apply for registration of an agricultural credit society, provided the members are of the same tribe, or occupation, or from the same locality. The size should not be unwieldy because as the number increases efficient management tends to deteriorate. The ideal is one society for each village as it is necessary for the success of the society to have mutual knowledge and reciprocal control on the part of members.

(ii) *Liability.* The liability of the members to pay each other's debts is unlimited. Wherever there is a deficit in the engagement of a society to its creditors, this deficit should, after the full payment of shares (if any), be recoverable by a series of *per capita levies* upon the members upto the full extent of their property while direct proceedings by a creditor against individual members being forbidden. The principle of unlimited liability exercises a healthy influence by stimulating a constant watch over one another's affairs, and secondly, it improves the credit of the society which can obtain loans at a cheaper rates of interest by inspiring confidence amongst its outside creditors.

(iii) *Management.* It is democratic and honorary. Each member irrespective of the number of shares or office held in the society has one vote. The management of the society is entrusted to two bodies: (a) General Committee consisting of all the members, and (b) Managing Committee or Panchayat consisting of five to seven members elected by the General Committee at its annual sitting. The management is gratuitous although the secretary is a paid one sometimes.

(iv) *Membership.* It is open to all those who are of a good and sound character. The admission of members into the society rests in the hands of the Managing Committee. Special care as to the honesty and industry of the new members is needed for societies having dishonest and irresponsible members eventually come to a sorry end.

(v) *Funds of the societies.* The funds of the society are raised from entrance fees, share capital, if any, deposits from members or non-members and other borrowings from Central Banks. Occasionally, the State also grants loans. The reserves built by societies, in course of time, also swell their funds and reduce their dependence on outside financing agencies. The extent of external capital whether in the shape of deposits or loans, is governed by the limitations placed by the bye-laws, and can only be raised by the vote of the General Committee.

(vi) *Purpose and period of the loans.* Loans are provided to members only for three objects—productive purposes, non-productive purposes, and redemption of past debts. Loans for current agricultural purposes such as the purchase of seed and manure, hire of labour or bullocks for cultivating purposes are made for one year, being repayable at the ensuing harvest. Long-term loans are also granted for purchase of bullocks, etc., repayable in two to three years.

(vii) *Rate of interest.* The primary aim of an agricultural credit society is to eliminate the exorbitant rates of the money-lenders and to inculcate the virtue of thrift, solidarity and self-reliance. The aim of the society should not be to provide too cheap credit as it may lead to reckless borrowing. The rate of interest at which the society lends money to his members should be higher than the rate at which money is borrowed by it.

(viii) *Security for loans.* Credit requires some form of security whether tangible or personal. In a co-operative credit society of unlimited liability, the security is based upon the honesty, diligence and frugality of the member. But in order to ensure the regular payment of the loan and to prevent its

misapplication, all loans are secured by bonds executed by the borrower and two surities.

(ix) *Audit, Inspection and Supervision.* The work of audit of the societies is assigned by the Act to the Registrar and he conducts it through the Auditors and Inspectors appointed by him. Supervision is exercised by Supervising Unions. The main duties of the Supervising Unions are to supervise the working of the affiliated societies, to promote the interest of their members by teaching thrift and diligence, to see that the accounts are in order, to stimulate the recovery of loans, and to promote the spread of co-operative education. The success of the co-operative societies depends upon an efficient supervision.

(x) *Division of Profits.* Profits accruing to the society remain indivisible and are carried to the reserve fund. However, a profit to the extent of 10 per cent is allowed by the Act to be set apart for contribution to charitable purposes, or for co-operative propaganda and education, or for objects of public utility.

Effects of Co-operative Societies in India,

The benefits conferred by the movement on the members of the co-operative societies have been of inestimable value. We are told that as a result of Co-operation "the idle man becomes industrious, the spendthrift thrifty, the drunkard reforms his ways and becomes sober, the hunter of taverns forsakes the inn, the illiterate, though a grandfather reads and writes."

Economic benefits. The primary purpose of co-operation is economic, and the benefits which it has conferred are mainly, though not exclusively, economic. The agriculturists of India are now saving more than a crore of rupees a year, due to the lowering of the rate of interest which is not an inconsiderable achievement of the Co-operative Credit Societies. Moreover, money that had lain idle and capital that was hitherto inaccessible and which would have gone into unproductive channels, have come into the hands of the agriculturists for the improve-

ment of agriculture and the removal of indebtedness. Besides, the societies have encouraged the virtue of thrift, checked the extravagance and freed the agriculturists from the dangerously facile credit of the moneylenders. Co-operation has greatly facilitated the work of the Agricultural Department in popularising, through societies, improved seed and cattle, cheap and better manures, efficient improved implements and, in general, helping the realisation of the ideal of 'better farming, better business and better living.'

Moral effects. The enforcement of thrift is of course the chief moral result of the co-operative credit societies. Persons with loose ways of living and such delinquencies are debarred from the membership of the societies; the only way to purchase the membership is to improve one's morals. Litigation has markedly decreased in some quarters and disputes are now settled by arbitration. 'Where co-operation rules litigation and extravagance, drunkenness and gambling are, at a discount.' The societies have improved the character and general tone of morality and promoted the development of a feeling of 'all for each and each for all.'

Educative effects. Education follows in the wake of co-operation. The co-operative movement has quickened the intelligence of the ryots and awakened their power of thought, understanding of business and sense of responsibility. They have learnt something valuable and they are showing themselves anxious to learn more. They want to master the rudimentary letters, to fit themselves for keeping accounts and checking them.

Social effects. The social benefits are still more marked and praiseworthy. It is here that advantages of unlimited liability are to be seen in full. Owing to an unlimited liability in rural credit societies, it is to the interest of everybody to see that extravagant expenditure particularly on non-productive purposes such as marriages and other ceremonial purposes is restricted. In the sphere of sanitation, the co-operative societies have undertaken such works as repairing of drinking wells,

improving village drainage, filling in pits and hollows in the village in which stagnant water collects and mosquitoes breed.

Administrative effects. The co-operative movement is essentially a democratic movement, a movement of the people, for the people, run by the people. The co-operative society of the village is a corporate body in which democratic principles of governance are taught. Owing to the use of the vote, the elective system, work on an organised plan, self-help and mutual dependence, the co-operative societies have been serving as great schools for political and civic education.

Defects and Drawbacks of Co-operation in India

The co-operative movement seems to have taken a firm root in the country but considering the vast requirements of the people it cannot be gainsaid that it has touched only the fringe of the problem. The number of societies in India including Indian states is more than one lakh, the total working capital amounts to Rs. 82 crores and membership to forty lakhs. Many Committees on co-operation have made exhaustive enquiries into the working of the movement, and have found out serious defects. The following are the weaknesses and defects which seriously retard the healthy progress of the movement in India.

(i) *Absence of understanding of co-operative principles.* Co-operation amongst ordinary members in a society is altogether absent. Little interest is manifested by the members in the working of their society; they take it to be a more cheap credit agency engineered by the Government officials. Few of the members truly realise that the success and strength of their society depends on the honesty, fair-dealing, self-help and mutual trust of their colleagues.

(ii) *Illiteracy.* It is a great canker in the progress of the co-operative movement in India; its corroding effects are felt in every branch of the co-operative activity; unpunctuality of payments; fictitious payments; large appropriation of money by the office holders; mismanagement and favouritism are some

of the resultant evils of this drawback.

(iii) *Absence of thrift.* The value of thrift is not yet realised by the people; it is the basis of co-operation. Co-operation and thrift go hand in hand. As a result of the improvident habits of the people, many beneficial effects of cooperation are completely neutralised.

(iv) *Defective audit.* It leads to irresponsibility and bad management. The Central Banking Enquiry Committee remarked, "Audit, supervision and inspection of societies which are closely allied functions are now vested in two and sometimes in three different agencies, resulting in much overlapping of work and waste of effort and money. After a full consideration of these points, and of the efficiency of auditing system in European countries like Germany and Austria, we recommend that for the due discharge of the statutory functions of audit special district unions should be formed to carry out audit supervision and inspection of the societies."

(v) *High rates of interest.* In spite of all the facilities and privileges granted by the Government, the rates of interest charged by the co-operative societies are still high. The result is that many cultivators do not care to join the society because they can get money at a cheaper rate of interest elsewhere and at the same time manage to keep their money transactions in secrecy, a state in which everybody would like to live.

(vi) *Inelasticity and inadequacy of co-operative finance.* The members of the co-operative societies are not granted requisite amount of money for their requirements and very often in securing loans from the society an unnecessary delay is caused which proves sometimes too detrimental to the members, for agricultural operations cannot brook any delay. In many cases the usual practice is to grant the entire amount of loan to the borrower at one time with the result that if he stands in need of money in the middle of the season, he has no course save the moneylender's protection.

(vii) *Government Control.* The excessive officialisation has led people to believe that co-operative credit societies are

the *sarkari* banks, a belief which is against the true spirit of co-operation since the essence of co-operation is self-help. It is essentially a movement of the people and official spoon-feeding is detrimental to its progress.

(viii) *Predominance of agricultural credit societies.* Out of a lakh of co-operative societies there are about 83,658 agricultural credit societies. It is only the credit co-operation that has developed to an appreciable extent whilst other phases of the co-operative movement, have been almost totally neglected. It is regarded as a great drawback of our movement because mere provision of cheap credit cannot be of much help to our cultivators in ameliorating their lot. In order to improve the lot of the hardworked and poor-fed cultivator, it is the crying need of the hour to increase his money income for which we will have to organise such societies as better farming, marketing, consolidation of holdings, etc. Village sanitation, welfare and reconstruction societies inculcating amongst members the ideas of decency, cleanliness and progress should also receive our earliest attention.

CHAPTER XXIV

PROFITS

The Nature of Profits

Having understood how the share of landlords, wage-earners and capitalists is determined, let us now proceed to inquire respecting the share of the entrepreneur who, besides assuming the responsibility of establishing, organising and conducting a business enterprise, also undertakes the responsibility of risk incidental to the enterprise. In a restricted sense, as understood by economists, profits consist of the remuneration for the highly valuable services of the entrepreneur and compensation for the risk undertaken by him.

Profits must be distinguished from the income of organisation which is commonly relegated in a joint-stock company to the salaried managers and organisers who are quite immune from any risk of the enterprise. In an industry, the entrepreneur engages the services of landholders, capitalists, wage-earners and organisers, and pays them stipulated sums of rent, interest, wages and salaries respectively, even though his business runs into a financial crisis. Before the actual production, he enters into a contract with the various agents of production, he pays them slightly less than their prospective productivity because firstly, he cannot make a correct estimate of the productivity of each factor because market conditions are so unstable and changing, and secondly, he stipulates to pay their remuneration long before the actual realisation of the money from the sale of the commodities produced by them. The residue, left after the payment of the stipulated sums to the factors he has hired in the production of his wealth, is the reward of his enterprise, known as *profits*. Profits thus appear as a residual income,

but according to Carver this does not mean that profits are a residual share in the sense that the others are determined independently by laws which affect them alone, leaving profits as a share which can be determined by no law except that of subtraction. In fact, there can be no residual share in this sense, for any change which affects one factor and its share will affect the other also in one way or the other. But in a very concrete sense the profits of an entrepreneur are what is left to him after paying all his expenses of production, i.e., the payments made for the services taken from the different factors, his wages (such wages as he would have got in the market if he were to engage his service for someone else) for his own labour, interest on his own capital invested in the business, and rent on his own land.

Undoubtedly, under the present system of large-scale production when simple hand tools are replaced by big machines, when many persons of various degrees of skill, strength and intelligence work on contractual system, when commodities are turned out for distant and future markets, and when a sudden fluctuation in the volume of the supply of raw material brings about an appreciable change in the value of commodities, the entrepreneur contributes two indispensable services of organising the different factors of production by his administrative ability and intelligent bargaining power, and secondly of undertaking the responsibility of the risk inevitably involved in a productive activity. Therefore, the profits consist of (i) *the income derived from the superior intelligence and bargaining capacity of the entrepreneur*, and (ii) *the reward for risk incidental to production*.

It is instructive to note that the earlier economists seldom distinguished between the functions of an entrepreneur and the capitalists as the businessmen, in former times, worked generally with their own capital, and, therefore, they did not regard profits as a separate share of the product of industry. Walker first brought out the clear distinction between the functions of an entrepreneur and of the capitalist in a modern industry.

He reasoned that profit as distinguished from interest and wages is the share of entrepreneurial ability—an ability which is possessed by entrepreneurs in varying degrees and which in its highest forms is specially scarce. He regarded profits as being of the same genus as economic rent, and showed that the rate of profit was determined in much the same way as the rent of land. He maintained that profits are due to exceptional abilities or exceptional opportunities of the entrepreneur. Just as rent is due to superior fertility or situation, and just as there are various graded qualities of land, similarly there are varying degrees of ability till at the margin we find those unfortunate employees who earn only a bare subsistence and whose profits amount to nothing and thus, profits are a true rent of ability.

But the modern economists do not agree with these conclusions of his theory, and argue that an employer will have no inducement to remain in business, unless he is earning at least a certain minimum rate of profits which is the normal rate in that industry. If the employer does not make any profit for the services of his entrepreneurial ability, he will go out of the market and become a wage-earner. Clearly, employers possessing rare ability receive high profits; but even at the other end of the scale, firms working under the most disadvantageous conditions must pay a reasonable rate of profits to the employers. But the price of the produce is regulated by the *representative* or *average* firm. On either side of the representative firm, there will be some firms which are highly efficient and others exceptionally inefficient, but it is asserted that prices will tend to adjust themselves to the expenses of the representative employer and not to the expenses of the most inefficient employer. In the short period market, it is just possible that the marginal entrepreneur may not be making any profit but he struggles into business and in the long period market, he must receive a normal rate of profit if he is to continue his productive activities in that industry.

The Tendency of Profits to Fall

Like interest, the rate of profits too, tends continually to fall with the march of economic progress. Pure profits which are a result of the differential advantages enjoyed by the superior entrepreneurs are always tending to disappear, as more and more equality of opportunities is forthcoming to the businessmen. For the time being, an entrepreneur, for example, may reap extra profits by adopting improvements in the methods of production with the aid of newly invented machinery or other economical devices of organisation, but soon, he will be overtaken by his competitors who will do away with his extra profits. As competition grows keener and keener, that is to say, as the business genius and opportunities of initiation and organisation are coming within the easy reach of all businessmen, profits are tending to fall to minimum limits. So long as competition remains imperfect, differential gains are enjoyed by the superior and powerful competitors, though they are always in the process of elimination as a result of a constant increase in the number of men of superior ability and intelligence.

In respect of the tendency of its rate to fall, profit must be distinguished from rent of land. Profits tend to fall owing to an increase in the number of men of superior ability, and according to the universal law of value, price falls with the increase in supply. On the contrary, in pursuance of the growth of population, the rent of land tends to rise because supply lags behind the increased demand.

The Constituents of Gross Profits

What remains with the entrepreneur after paying all his expenses of production is called Gross Profits which generally contain one, or more, or all the elements noted below. In order to arrive at a correct estimation of 'net profits' of a business or an industrial enterprise, we must analyse gross profits into the following elements:—

1. *Rewards of agents of production supplied by the entre-*

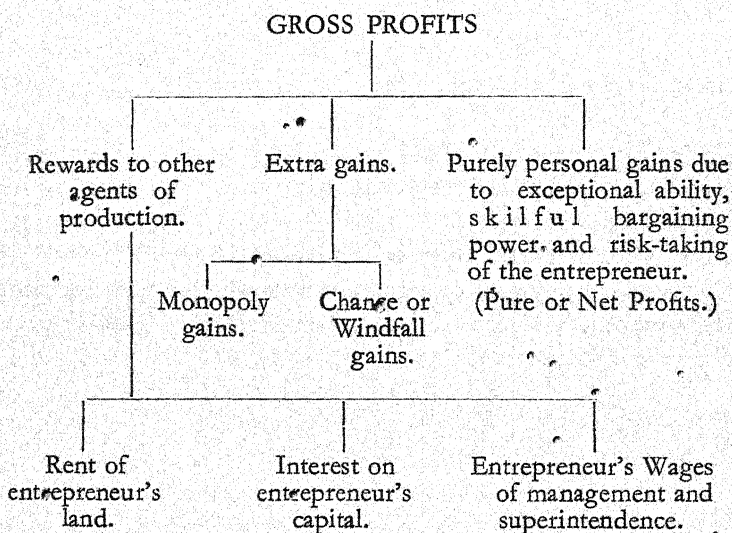
preneur himself, i.e., (a) rent of his own land, (b) interest on the capital invested by him, equal to the amount which he would have paid if he were to use borrowed capital, and (c) wages of management and superintendence as the entrepreneur performs a certain amount of managerial work for which he would have to pay if he were to engage a manager. This remuneration of the employer is often called as 'the wages of management.'

2. *Monopoly gains.* Further, in computing net profits of an employer, all gains which are due, not to the superior efficiency of the employer, but to non-personal causes must be deducted. Monopoly gains may be cited as an example of such extra gains. An employer may have the advantage of a monopoly power which may enable him to reap high monopolistic gains, over and above his ordinary profits. Such gains cannot be classed as net profits as they are not attributed to his personal efficiency.

3. *Conjunctural gains or chance profits*, resulting from a favourable conjuncture of circumstances which could not have been foreseen, are secured by the enterprisers. These chance gains or windfalls are the result, not of any special foresight or efficiency of the entrepreneur, but a matter of chance.

4. *Gains due to superior ability and risk undertaking.* The balance of gross profit which is left after deducting the various items mentioned above may be regarded as pure or net profits. They are due to superior enterprise and bargaining ability of the entrepreneur. The responsibility of risk falls on the shoulders of the entrepreneur and his income representing the reward of risk-taking constitutes his net profit. Another element of the entrepreneur's profits lies in his gains of bargaining capacity. "Skilful bargaining swells the entrepreneur's profits, firstly, by increasing the prices he gets for things, and secondly by decreasing his expenses of production." However, entrepreneurs whose services are needed by society differ in remarkable degrees concerning their organising ability and skill in bargaining, and they range from the marginal entrepreneurs who can just manage to earn minimum profits, to those rarely-

gifted persons who, in common phrase, seem to turn everything they touch into gold, and who are as resolute in failures as steady in successes. "Pure or net profit is, therefore, a purely personal *differential* gain which accrues to the entrepreneur by reason of his enterprise and organising ability, and the amount of that profit is determined by the extent to which the abilities of the entrepreneur surpass those of the marginal class of employers." A diagrammatic representation of gross profits into their component parts is given below.



Profits per Annum and on the Turnover

It is important to consider the distinction between the rate of profits *per annum* and the rate of profits *on the turnover*, earned in a business. In the former case, the rate of profits is calculated as the annual rate of profits on the amount of capital invested in any particular trade or industry; in the latter case, the rate of profits is calculated every time the capital of the business is turned over, that is, every time when the sales of the business are equal to the capital invested. This turnover may be rapid or slow. The rate of profits may be smaller or larger,

on the turnover according to the nature of the transactions carried on in a business, yet the annual rate of profits in each trade or industry has a tendency to be equalised under the forces of free competition. A difference in the rate of annual profits will lead to an outflow of capital from the less remunerative business to a more profitable business.

The rate of profits on the turnover varies much more widely than the annual rate of profits on capital. Marshall writes: "It is clear that if the average net profits in two businesses are twelve per cent per annum, and the first turns over its capital 4 times in the year and the other only once, the profits on the turnover must be 12 per cent., in the latter case, and only about 3 per cent, in the former." Thus we find that the average net profits in two businesses on the capital invested are 12 per cent, yet if we take into account the rate of profits on the turnover, it is 12 per cent in one, and 3 per cent in the other. Those businesses in which rapid turnover of capital is possible the rate of profits per turnover is small but the average net profits, in view of the several number of turnovers, is not lower than those businesses in which the turnover of capital is slow and the rate of profits per turnover is large.

Although there is no general tendency of profits on the turnover to equality, yet there is in each trade and in every branch of each trade, a more or less definite rate of profits on the turnover which is regarded as a 'fair' or normal rate.

CHAPTER XXV

BUSINESS OPPORTUNITIES IN INDIA

In this chapter, we propose to deal with the business opportunities that are at present available for increasing the total productivity and prosperity of India. Land, labour, capital and organisation are the factors of production and the national prosperity depends in a country upon their availability and the ability to utilise them for productive purposes. India is one of the largest countries both from the point of area and population in the world. She is abundantly rich in her natural gifts which not only provide us with large supplies of food stuffs but also give us all sorts of raw materials upon which is ultimately based the development of our manufacturing industries. India possesses also an inexhaustible supply of cheap labour and although the proportion of our unskilled to skilled labourers is very large, yet this much is certain that with increased facilities of general and technical education, improved organisation and better provision of necessities of life, the Indian labourer will be in no way inferior to any of his compeers in any part of the world. The great intellectual and constructive abilities of Indians, cannot be denied by any observer who has got the slightest acquaintance with the conditions prevailing in India. As far as capital is concerned, India does not, owing to her general poverty, possess the necessary amount of capital for exploiting her natural resources to the fullest extent. But it is estimated and, rightly too, that with improved and suitable banking facilities and a better utilisation of capital resources, adequate amounts of capital will be forthcoming from her own people for the industrial development of the country. The amount of potential capital at our disposal is enormous. But

in spite of all these vast natural resources, plentiful supply of labour and adequate potential resources of capital, man in India lives in appalling poverty, the incidence of which is not so acutely felt in any civilised part of the world as in our own country. The average daily income per head comes to about six pice; many live on the starvation level hardly getting one square meal a day. This is a great anomaly; we often get perturbed to think as to how in the midst of such vast resources an overwhelming majority of the people in India are so deplorably poor. The two important considerations of business opportunities in India and the proverbial poverty of the country, therefore, require a simultaneous treatment. In dealing with the former, we shall try to seek the solution of the latter.

Wastage of Natural, Human and Capital Resources in India

It may be repeated that economy and efficiency in our industrial and economic activities are the sole criteria of progress and prosperity. Economy in natural, human and capital resources together with their efficient utilisation is an essential condition for industrial and economic progress. In India, an enormous wastage of natural, human and capital resources is caused due to the industrial inefficiency of her people and the lack of co-ordination between the various factors of production. India sadly feels the want of intelligent and organised direction, specially in the control of economic matters affecting the material well-being of the people. *"There is nothing in which we in this country need to be instructed so much as in organisation. There is plenty of almost everything in this country but one great defect is that nothing is where it should be, and everything is so dispersed that it is almost impossible to bring it when and where it is wanted. Thus in the midst of plenty we have often to starve."*

That we are exploiting our resources with inefficient and wasteful methods of production will be apparent from the fact that our agricultural industry which gives direct sustenance to

more than 72 per cent of the population is handled most inefficiently involving therein incalculable waste in a variety of ways. A very large percentage of the arable land is not utilised properly for productive purposes. With regard to second important natural resources namely forests, which cover an *area of about 250,110 square miles or about 23 per cent of the total area of the country*, no better attempts have been made to utilise and conserve them. It is calculated that at present only about one-fourth of the forest potentialities are utilised for productive purposes. Coming to mineral resources, iron, coal, mica, manganese and petroleum are the most important products from the industrial point of view. The iron-ore reserves which are found in unlimited quantities in Bengal, Bihar and Orissa, the Central Provinces and Southern India are the richest in metallic contents. India also annually suffers a tremendous loss in her water-power resources for not utilising them for her industrial and economic development.

The wastage of man-power or the labour force in India is no less remarkable. That labour is the active factor of production and upon its efficiency depends the progress and prosperity of a nation need not detain us. Let us now proceed to examine the extent of waste in the nation's man-power. In the opinion of the well-known writer Mr. Rajnikanta Das, there are three principal causes by which India's human resources are wasted, viz., *ill-health, ignorance and unemployment*. Ill-health which is mainly due to the ravages of epidemic diseases and poverty of people presents more serious consequences of a varied character than are generally supposed. Lethargy and inertia as well as high infant mortality and premature death are some of the evil results of the poor physique of the people. Enormous wastage of human resources takes place in our country inasmuch as the average longevity of men in India is 24·7 years as compared with the average longevity of men in countries such as Norway, England and Wales, the United States and Japan where it amounts to 55·6, 51·5, 50 and 44·3 years respectively. Another important cause by which our human resources are

wasted is ignorance or lack of training and education. Statistics tell us that about 8 per cent of the people are literate. It is universally accepted that the right system of education which should develop the mind and broaden the outlook on life and worldly matters in order to enable people to become 'men of the world', is conspicuous by its absence in India. Mere reading or writing or committing to memory scriptural books does not solve the problem of India's industrial inefficiency. Industrial, technical or commercial education is sadly lacking in India. It is on account of this industrial inefficiency arising from the want of general and technical education that our natural and capital resources are not exploited productively and economically.

Unemployment as also under-employment is an alarming cause of the enormous wastage of India's man-power, more particularly at the present time when it has shown a tremendous increase due to depression in trade and slump in industry and agriculture. In the agricultural industry, agriculturists have to pass several months in compulsory inactivity owing to the seasonal work and the lack of other subsidiary occupations. Such periods of inactivity in the absence of other gainful occupations are, in the majority of cases, spent in idleness or frittered away sometimes in uneconomic activities or vicious habits. The artisans fare no better; they also suffer from under-employment in so far as they cannot find a remunerative engagement of their labour throughout the year. Regarding the industrial labour in organised industry, it may be said that a great amount of waste is brought about due to the migratory character and widespread habit of absenteeism of Indian labourers.

Coming to the important question of unemployment among the middle classes, the manifestations of waste are visible in more than one way. Unemployment among the educated middle classes is rapidly assuming alarming proportion in the absence of any effective remedy. Every year a large number of matriculates and graduates of all description are being manufactured by Boards and Universities with natural consequence

of a slump in the market where everyone educated hunts for service while new avenues of employment are almost blocked up. They are driven, for no fault of their own, from pillar to post either to be perished in semi-starvation or to join the humiliating ranks of employment where the remuneration can hardly be said to be commensurate with the money, energy and time they expended in their education. It seems, apparently a waste, if the present system of literary education which involves a large expenditure from public revenues instead of elevating their material and moral condition decreases it all the more for whatever pecuniary strength the recipients possessed has been lost while receiving their costly education. Unemployment, it should be remembered, brings lethargy, inertia and decreases the efficiency of those who become the victim or have the prospects of this devilish malady.

Capital whose existence depends entirely on the capacity of people to work and save is one of the essential factors of production in modern industrial economy. We have read, elsewhere, that capital depends for its existence on the excess of production over consumption. But our main purpose here is to see in what ways we stand accused of committing waste of our capital resources and letting our capital goods go utilised unproductively.

Apart from the waste accruing in the agricultural industry in pursuance of the degenerated breed of the live-stock, non-utilisation of the farm-yard manure and inability of the agriculturists to secure good varieties of seeds, the most reckless wastage of India's potential capital resources is committed through the conservative habit of hoarding precious metals. The Indian hoards have gained a notoriety in the countries of the world. In spite of the exaggerations made by a few foreign observers, it must be said that the consumption of precious metals, which all through remained unorganised and immobilised for productive investments, has been enormous in India. Had this potential amount of wealth managed to fall in the hands of more enterprising people, it would have, by this

time, been doubled or trebled even, but Indians instead of increasing it or keeping it intact have lost a substantial part of it. It is estimated that about 70 per cent of the social savings in the forms of hoards have been a dead loss to the country. At the present time, the hoards of India have much diminished owing to export of gold to foreign countries caused by the high prices after the abandonment of the gold standard by England. The waste accruing from this vicious practice is sure to continue unless people realise completely that it is more convenient and profitable to invest their savings in productive concerns rather than burying them unproductively in iron safes or at the back of a brick in a wall.

In the above paragraphs, we have attempted to present a sketchy idea of the enormous wastage of natural, human and capital resources that is taking place in India. One of the most important causes of India's poverty and her industrial backwardness lies in the fact that for one reason or another we have failed to avail ourselves of the colossal opportunities offered by the natural resources of this country. They have proved themselves incapable in making due provisions for the utilisation and conservation of their natural and human resources, and in the transformation of their social savings into social capital for the economic and industrial development of the country. In short, the two important factors of economy and efficiency which count so much in industrial progress are conspicuous by their absence in India. The example of industrial countries must prove an eye-opener to India as the former ones have economised their resources, utilised them efficiently and grown rich; whereas, we have wasted our resources, handled them inefficiently and grown poorer. The solution of Indian poverty is, however, by no means an easy task. It is not an individual's work; it requires the co-operation of the varied forces of the entire country, and chiefly the financial and organising resources and abilities of the capitalists, industrialists, bankers, expert businessmen and entrepreneurs. The necessity of Governmental guidance, direction and control in launching a constructive programme of

economic development in all its various phases seems all the more imperative in a country like ours which is inhabited by illiterate, poor and unambitious people. With a more sympathetic, enthusiastic and fostering policy of the Government, a greater awakening attendant upon right propaganda and education of the Indian masses and the creation of a more favourable atmosphere for the industrial development of the country, this colossal waste which is now going on unchecked can be arrested within a reasonable period of time to the great relief of the poverty-stricken people of India.

Industries awaiting development

Let us now consider the various business opportunities awaiting development in India, and see how far the increased productive capacity, accruing through the application of up-to-date methods of production, can solve the problem of poverty. Although the various fields of productive activity in a vast country like India, having diverse physical, climatic, vegetable, mineral and animal resources, cannot receive our fullest attention in this elementary book, yet we shall take some of the important branches of industrial activity pointing therein the possibilities of onward progress. We shall, first of all, deal with the agricultural industry of India, not because it constitutes the chief occupation of the people but because its vast potentialities awaiting fruitful exploitation have not yet been fully realised by the people.

Agriculture

As agriculture constitutes the chief occupation of the people, and as the success of other industries depends upon an adequate supply of the raw materials, therefore, in every scheme of India's reconstruction, improvement of agriculture ought to engage the foremost attention of all those who wish to see India prosper. Efforts should be made to investigate the different sources of waste caused by the ignorance and poverty of the Indian peasantry and to wipe it out root and branch with

effective remedies.

The piecemeal introduction of haphazard, scientific and improved methods of cultivation, in the absence of any constructive rural programme, must give to the poverty-stricken Indian cultivators only a bit of relief and amelioration. The average productivity of our soil is very low as compared with that of other countries, not because our soil is deficient in physical, chemical or mineral constituents but because no efforts have been made to conserve and improve the soil fertility in India. The chief noteworthy fact concerning agriculture in India is that, owing to the existing aversion to manual labour and a false notion of dignity, it has failed in modern times to attract men of the right type. The entire agricultural industry is manned by ignorant, poor and conservative agriculturists who seldom care to move with the march of time. The need of the hour is to awaken them out of their age-long torpor by constant propaganda, general and technical education pertaining to their profession; demonstration and discourses in order to make them familiar with the achievements of the agricultural science. Certainly, the problem is not so easy as it is often supposed to be; many difficulties of a most acute character would arise in the course of disentangling intricate situations that have, in the absence of any effective remedy, gained constant strength with the passage of time, but it is expected that with greater awakening of the masses and the national outlook on the part of the Government, much of the present deplorable situation would come to an end. The poverty of the agriculturists is quite an obvious fact; it is one of the greatest impediments in the way of an agricultural improvement. Any improvement which brings more profits to the cultivator will surely win his confidence, and will make the execution of the works of agricultural improvements much easier.

It is for the increase in his profits that our efforts should be solely directed. At the present time, in view of the peculiar drawbacks, the Indian cultivator carries on extensive cultivation with the result that the average yield from land is low. In

every other country of note, agriculture is carried on intensively and every effort is directed towards eliminating any sort of waste. Therefore, intensive methods of cultivation should be resorted to by the cultivators. This system involves an expenditure on permanent improvements like irrigation works, good manuring, more up-to-date methods of cultivation, better varieties of seeds, and a wiser system of rotation of crops. For enterprising men, equipped with requisite technical knowledge of farming operations and provided with sufficient capital to finance the introduction of improved implements which economise labour and time, there lies a vast opportunity in this direction which has hitherto been neglected by real and competent businessmen. With the adoption of agricultural machinery and improved implements to farming operations, application of chemical fertilisers and well-preserved farm-yard manures, distribution on a much wider scale by Agricultural Departments of better varieties of seeds and plants of high-yielding capacity, the provision of improved type of draught and milking cattle together with the establishment of veterinary hospitals and dispensaries in rural areas to control the epidemic diseases that take a heavy toll and sap the vitality of the cattle population, the consolidation of fragmented and scattered land-holdings, development of co-operative movement in all its phases specially in credit, sale, purchase and production together with the opening up of land mortgage banks for providing long-term credit to agriculturists for financing permanent improvements on their land, development in the means of communications for easy and cheap mobilisation of crops to urban areas and improvements in the land tenure system of India, there is no reason why agricultural industry in India, which has fallen at present into disrepute on account of the conservative and wasteful methods of tillage practised by ignorant peasants, should not rank as a remunerative one.

The introduction of such other forms of agriculture as dairying, fruit and vegetable gardening, poultry, pisciculture and sericulture near markets will open up a vast field for wealth-

production. The revival and encouragement of suitable cottage industries, after a careful regional survey in rural areas, will not only keep the cultivators profitably engaged in their leisure hours but a cottage industry will be a sure bulwark against any drought or famine. Agriculture is a very risky profession; even the most careful and prudent agriculturist cannot be sure of the fruits of his labour as the full-ripened crops may be devastated in a few moments by any of the natural agencies over which he keeps no control. The important problem of marketing should not escape unnoticed; in marketing his produce the cultivator is defrauded by the shrewd middlemen. The institution of co-operative marketing is the only effective antidote against the poisonous grasp of astute moneylenders and shrewd middlemen. These societies will purchase all the produce from the member-cultivators, stock it after grading it into different varieties, will make arrangements for its sale directly with some big dealers by avoiding strictly all the long chain of middlemen; and thus make an extra profit for the amelioration of those whose lot we wish to see improved.

A Survey and Scope of Industrialisation

It seems advisable to give some general impressions regarding the present state of Indian industries and see how far a rapid and intensive development in the manufacturing industries can bring about a permanent economic relief to India. That the present industrial structure of India is based on very shaky foundations cannot be denied by even a casual observer. Although we have in our country the elements of almost every type of industry, yet it should be pointed out that the development of two types of 'basic' or 'key' industries—chemical and engineering—has been sadly neglected in India. That our sole dependence for the supply of machinery, chemical products and other accessories on the foreign industries, in the absence of metallurgical and chemical industries in India, is a clear indication of the weakness of our industrial organisation. In fact, the very basis of Indian industrialisation stands on miscalculated

principles for the healthy growth of Indian industries depends upon the development of metallurgical and chemical industries in India.

Another important point to be observed regarding the present state of industries is that their development has not been commensurate with the size of the country, its population and its natural advantages. From the fifties of the nineteenth century upto the present day, industries have shown a halting progress. In the year 1929 according to the Report of the Royal Commission on Labour, there were 8,129 factories in British India and Burma employing nearly 1,533,169 hands—indeed, a poor record of our industrial development. Though the number of factories and working hands has increased considerably now, even then scarcely one per cent of the total population is employed by modern industries, and the commodities manufactured by these factories meet only a fraction of the total demand of the country. At present foreigners take away our raw materials and hand them over back to us in the shape of manufactured articles even after incurring the transit charges of both sides and the custom duties. This indicates that the industrial development has not yet started on right lines. It is said that the scarcity of capital, the absence of engineering and chemical industries, the inactive policy of the Government towards the industrial development of the country and the paucity of good entrepreneurs or 'captains of industry' are responsible for the slow progress of the Indian industry. If right type of industrial organisation coupled with a technical knowledge of the modern industrial progresses and the requisite capital resources are forthcoming, there are good many possibilities for a rapid development of industries.

Let us now attempt to answer the second question raised at the beginning of our enquiry, i.e., how far the development of manufacturing industries can solve the problem of poverty. The surest way in removing the deep-rooted poverty of the people and improving the economic condition of the masses is to divert the capital and human resources to industry under a

well-regulated scheme of industrialisation. Even the Famine Commission of 1880, when the pressure of population on land was not so acute, urged the necessity of opening up other avenues of industrial occupation in order to transfer a portion of agricultural population to other pursuits. The establishment of manufacturing industries will not only attract a large section of the agricultural population but also relieve to a considerable extent the problem of unemployment among the educated classes which has assumed alarming dimensions at the present day. With the encouraging policy of the Government in respect of India's industrial development thus, creating an atmosphere of confidence in the minds of capitalists about the security of their resources and profits, competent organisers will emerge out to place Indian industry on a much sounder footing. As H. Calvert in 'Wealth and Welfare of the Punjab' remarks "the best training for the future manager is to be acquired in the mill and amongst the men he is to manage. The art is picked up in the atmosphere of industry." India possesses, without any doubt, great facilities in marketing and does not stand in need of other markets, at least for a brief space. Every year manufactured articles worth many crores of rupees are being imported from foreign countries, the raw materials of which exist in considerable quantities in our country. It may be repeated that all the essential conditions favourable for the industrial expansion of a country exist in India to a remarkable degree, and there is no reason why with the help and patronage of the Government coupled with a real patronage from the Indian people the national industries should not flourish and succeed in relieving the over-crowded pressure upon land, and in improving the general economic condition of the entire population of India.

Let us now examine a few typical industries and see how far natural resources of India can be utilised with Indian labour and capital for the benefit of our countrymen.

Textile Industries

The cotton industry is largely financed and managed by Indians but still there exists a vast opportunity for further enterprise. It is the premier industry of India and stands next to agriculture in importance. At present nearly two-thirds of the total home-demand is met by the indigenous hand-loom industry and Indian mills while cotton goods imported from abroad supply one-third of the total demand of the people. Thus in order to stop these huge imports of cotton goods which come to about sixty crores of rupees under normal conditions, a vast scope is available to the capitalists and entrepreneurs for undertaking new cotton manufactures or improving the old ones. With the development of cotton manufactures within the country and the utilisation of raw cotton which is now exported to foreign countries only to find its way back to us in the form of finished articles, we would be relieved of the foreign supplies. Industrial combination of the cotton-mill industry, after the model of foreign mills, with a view to introduce new technique, including automatic machines, to specialise in certain lines of production by individual mills, to allocate the quantities to be produced by each mill, and to consolidate the purchase of raw materials and the sale of finished products, is the crying need of the moment which alone can ensure its speedy progress.

The jute industry which is mostly managed and financed by foreigners enjoys monopolistic advantages, but at present it manufactures about half of the raw jute produced in the country. With the restoration of normal economic conditions and the introduction of better organisation, there lies a further scope for the manufacture of raw materials now exported to foreign countries.

The silk industry also presents vast possibilities for enterprise and profit-making. Formerly, the Indian silk embroideries and brocades were well-known and highly appreciated, but towards the end of the nineteenth century the Indian weavers

were forced to lay down their antiquated tools before the onslaught of cheap foreign silk produced by labour-saving machinery. The silk industry consists of sericulture, reeling and weaving. As both sericulture and reeling methods are not satisfactorily developed on modern lines in India, the weavers prefer the use of imported silk yarn which is cheaper in price and superior in respect of general finish. With improved methods of growing mulberry and rearing selected breeds of silk-worms, the introduction of scientific methods for reeling, the modernisation of the primitive processes in respect of weaving and with efficient organisation amongst the silk weavers for the purchase of silk yarn and the disposal of silk products, there is every likelihood of India's capturing her lost markets.

Metallurgical Industries

The iron and steel industry has made an appreciable progress during the last two decades but its development has not been commensurate with the requirements of the country. Our dependence on foreign countries for the supply of machinery, machine tools and hardware goods is a great weakness of our industrial system. As their imports amount to many crores of rupees annually, there exists a considerable scope for the manufacture of iron and steel products. Moreover, as industries increase in number consequent upon a right industrial policy a large demand for machinery, machine tools and other accessories will be created. The development of mechanical engineering works holds out great possibilities in view of the recent expansion in the electrical engineering works. The subsidiary industries depending upon the development of this basic industry will also offer new opportunities of investment and profit-making. By adopting the latest industrial technique in making industry, improving the means of communication, and increasing the technical skill of the workers, the vast mineral resources can be utilised to the great benefit of entrepreneurs, capitalists and labourers alike.

Forest Industries

In spite of the noteworthy improvements introduced in recent years by the Forest Department, the development of forest industries is yet in its initial stage. The potentialities of Indian forests have not been fully explored and there exists practically an unlimited scope for the development of forest industries. It has been, elsewhere, mentioned that Indian forests contain all kinds of trees and the numerous products available thereof, if fully exploited on a commercial scale, will tend to augment the national wealth of the country.

The paper industry notwithstanding many a vicissitude in the past, holds out great possibilities of extension, as the immense resources of raw materials discovered so far for the manufacture of paper are not yet fully exploited by the paper mills working in India. At the present time the Indian paper mills are supplying about 30 per cent of the total Indian demand while the rest of the demand is met by the imported paper which amounts to nearly $3\frac{1}{2}$ crores of rupees annually. India has immense resources in sabai, munji and savanah grasses found growing extensively in Burma, Bengal, Assam and the United Provinces. Besides grasses found suitable for the manufacture of paper of fine and medium texture, India has vast resources in bamboos found abundantly in Burma, Bengal and South-Western India. It has been estimated that bamboo and grasses available in India, if exploited to their full capacity, may produce pulp equal to the entire world's demand. With the growth of education and literacy in the masses of India, the paper industry promises a bright prospect for the establishment and successful working of paper mills in India.

The lac industry of India due to its somewhat monopolistic nature occupies a very prominent position in the world market. India exports worth crores of rupees annually to foreign countries both raw and manufactured lac (i.e., shellac and button lac) which is chiefly employed in the preparation of paints and varnishes, in the ornamentation of wooden and

metallic articles, in the manufacture of gramophone records, in electrical works as an electrical insulating agent and in several other minor manufacturing works. The methods of manufacturing lac so far employed have been unscientific involving thereof much waste. As our lac industry is seriously threatened by cheaper lac substitutes, every effort in order to successfully meet the competition from synthetic lac should be made to reduce the expenses of production.

The rubber industry is assuming growing importance as the area under rubber cultivation has increased amounting to nearly 130,000 acres. But unfortunately in the absence of rubber manufacturing concerns, except two or three factories working at Bombay and Calcutta, a major proportion of raw rubber grown in India is exported to the United Kingdom and the United States only to find its way back in the shape of finished rubber goods. A better organisation of rubber industry, an investigation into the high yielding capacity of trees, and an improved technical knowledge in respect of its production are the essential requirements of the day.

The allied industries of turpentine and rosin are comparatively of recent development and the potential resources for their expansion are believed to be enormous. At present the production of turpentine oil is inadequate to meet the internal demand as large quantities of superior grade oil and resins for various industrial purposes are imported from America and France, but it is estimated that if all the available resources of turpentine are exploited to their full strength, India will not only become independent of the foreign supplies of turpentine but also export the surplus to foreign countries.

The sandalwood industry deserves a serious attention on the part of thoughtful Indian industrialists in view of the fact that sandalwood tree is a practical monopoly of India and the demand for its products arises from the different parts of the world for a variety of purposes. This aromatic tree is chiefly found in South India. It is used in making carved boxes, picture frames, walking sticks, handles, pen-holders, etc.

The oil is obtained by distilling the chips of sandalwood which is extensively used in perfumery and manufacture of toilet soaps. Apart from the exportation of sandalwood oil, a large quantity of sandalwood is also exported for distillation to foreign countries, particularly the United Kingdom and the United States. So far the methods employed in the extraction of oil and the manufacture of attar, perfumes, etc., are primitive besides being wasteful. In order to reduce the cost of production of oil and to successfully meet the competition from similar products, it will redound to the credit of manufacturers if they adopt the up-to-date scientific processes of distillation.

Apart from these, several other commercial products can be made to yield good returns. Amongst important ones there are essential oils, like lemon oil, khas oil, eucalyptus oil, cardamom oil; tanning materials such as Babul bark, Tarwer bark and Myrobalans, etc.; dyeing materials obtained from the roots, barks, fruits and flowers of trees and plants, and gums obtained from the exudation of some varieties of trees.

Chemical Industries

To reiterate, the successful development of many indigenous manufactures has received a considerable setback due to the absence of Indian chemicals. That India possesses sufficient raw materials to start her chemical industries was clearly demonstrated during the War when several chemicals were produced in the country. India also maintains an ample quantity of raw materials for the manufacture of heavy chemicals such as sulphuric acid, soda-ash and caustic soda, so essential in the production of all other chemicals. The industries depending upon the chemicals are paper, glass, ceramics, fertilisers, matches, fine chemicals, dyes paint and varnishes, artificial silk, textiles and explosives. Sulphuric acid is extensively employed in various industries but due to the lack of sulphur deposits, India relied solely upon foreign imported sulphur for the manufacture of this important chemical. Now with the new possibilities of manufacturing sulphuric acid from gypsum, there lies an

endless opportunity of enterprise for the resourceful industrialists of India. It is believed that extensive occurrences of gypsum exist near the famous Slate Mines of Khewra. Besides this important raw material for the manufacture of sulphuric acid, salt, limestone and coal are also found in large quantities from which soda-ash and caustic soda can be manufactured. Thus the potential resources of heavy chemical industries are enormous and in view of their great national importance for the industrial development of India, it is a matter of prime importance and serious consideration that this industry should be financed and managed by Indians in the interest of indigenous manufactures. The development of this 'key' industry would mark the salvation of many struggling industries and of those which have not yet made their appearance on the soil of India.

Leather Industries

That we are abundantly rich in animal resources needs no reiteration. Influenced by the western ways of living, the demand in India for leather requisites such as boots and shoes, saddlery and harness, leather bags and purses, leather trunks and holdalls, straps and belts, gloves and other fancy leather articles has had a tremendous increase and the tendency is always in the ascendant.

The tanning and leather industries in India although practised from immemorial times have achieved in recent years a remarkable progress as a result of the introduction of western methods of tanning and manufacture. India is fortunate in possessing a large variety of animals which can supply different qualities of hides and skins suitable for the diverse requirements of her people. Goat and sheep skins are softer than hides and are employed in the manufacture of superior qualities of shoes, boots and gloves. Excellent tanning materials are also available in India. At present Indian tanneries and leather industries equipped with the most up-to-date machinery and organisation are not sufficient to work up the raw hides and skins available in India, as a result of which large quantities of raw hides and

skins are exported to foreign countries particularly to Germany and the United States. Tanned hides are mostly exported to Great Britain. Formerly and even now, the occupation of curing and tanning hides and skins is generally relegated to ignorant and backward castes which speaks to some extent of the backward and imperfect state of our tanning industry. The loss incurred through the native tanning processes is incalculable. Here lies a good field for enterprise and profit-making. The improved methods of curing and tanning through vegetable tans and chrome process will not only result in almost complete cessation of the exports of raw hides and skins but will also put a severe check to the imported leather goods and leathers amounting to nearly fifty lakhs of rupees annually.

Apart from this prominent industry, many other industries depending for their raw materials upon the by-products obtained from the slaughtered or dead animals can be started with success in India, provided requisite technical knowledge, sufficient capital and intelligent organisation are forthcoming.

To sum up, it can be said that there are many channels of business opportunities which have so far received a slight attention or remained uninvestigated by the Indian industrialists. Practically in every branch of economic and industrial activity Indians can make much headway and oust the foreign competitors who, today, on account of their superior skill in technique and organisation easily forbid Indian industrialists to enter in any important market of the world. A co-ordinated comprehensive programme of rural and industrial reconstruction, in the light of modern economic and financial theories of the State conceived in agreement with the wishes and opinions of the leading Indian economists, industrialists and financiers, is indispensable to avoid waste of effort, and to ensure steady economic, social, intellectual and political progress of the country.

To give a great industrial push to the country and to assure food and work to the people, some definite economic plan is needed. In the western countries, the Governments have started the schemes of four or five years plan to bring

about industrial advancement of their countries. Germany's Four Year Plan consists of six departments, namely, (1) Bureau of distribution of raw materials, (2) Department of distribution of labour, (3) Food supply department, (4) Foreign currency and banking department, (5) Department of price control, and (6) Miscellaneous department. Should we not think seriously of some such scheme for India also?

CHAPTER XXVI

PUBLIC FINANCE

Its Meaning and Importance

It is known to all that there are some functions which are necessary to the civic organisation of a country and which, in one shape or another, all Governments alike have undertaken. The State like individuals undertakes some activities either directly or indirectly, the main object of which is to promote the economic activity and progress of the community at-large. All these economic and industrial activities that we observe all around us would have been retarded, if not altogether paralysed, to a great extent in the absence of facilities conferred by the State through its various departments. The Government of a State requires the services of the navy, the army, and the air craft for the defence of the State from external danger and internal disorders, the constabulary for the maintenance of law and order, the judicial courts for the administration of justice and the punishment of crime, the prisons for reforming the ways of the offender, the asylums for the poor and the incapable, the educational institutions for educating people the right duties of citizenship and the various arts and crafts, the hospitals and dispensaries for the preservation of public health, and the railways, roads, harbours, canals, buildings, post and telegraph for expediting the industrial and commercial progress of the country. For the successful discharge of these multifarious functions under modern conditions, the State requires annually a large amount of money which has to be secured from taxation and various other sources of revenue. The study of the manner in which a Government obtains its revenues and spends them is called 'Public Finance.'

With the gradually expensive functions of the State, the expenditure of the State has enormously increased in recent times and an enormous amount of revenue through various sources has to be raised annually in order to meet the increasing functions properly.

Public and Private Expenditure Compared

The State like the individual has wants but there are several important differences between public expenditure and private expenditure. A characteristic difference is that an individual always attempts to augment his income and tries to adjust his expenditure according to the income he earns, while in public finance the process is reverse inasmuch as the necessary expenditure is first determined by the State and then sources are tapped for collecting an income that will balance the pre-determined expenditure. Thus, in public finance the income is determined by the expenditure and not the expenditure by the income. Another characteristic of public finance is its compulsory character. In private finance, a surplus of income over expenditure is desirable while in public finance a surplus would be taken as a defective finance and would invoke a lot of adverse criticism from the taxpayers. In public finance as against private finance, a generous provision has to be made for the future but the statesmen should not go too far in discounting the future as it may produce resentment among the taxpayers.

Sources of Public Revenue

From a theoretical point of view there has been a great controversy among economists regarding the classification of public revenue or income. Without entering into those intricate discussions, it may be pointed out that Governments for discharging the numerous functions in modern times obtain their revenues from the following sources:—

1. *Public or State domains.* The revenue from public domains consist of the income from agricultural land, forests and mines in which the State holds a proprietary right. Forests

being an asset of considerable economic importance to the community are largely controlled and managed by the State. Mining areas being the property of the Government bring in a considerable amount of income either when sold or utilised.

2. *State enterprise.* The State in almost every country undertakes certain businesses both productive and distributive such as the operation of post-office and telephone services and other undertakings of a monopolistic and public utility character like the provision of pure water, construction of railways, and operation of model industrial establishments. Industries of a competitive character are usually relegated to private enterprise. Many commercial undertakings are undertaken by the State in the interest of the people.

3. *Investments of the State.* The State may obtain some portion of revenue from shares held by it in some businesses, specially in businesses of public utility service.

4. *Public loans.* Public loans are a source of revenue giving rise to public debts. In times of emergency for covering the cost of extraordinary services such as for the construction of canals or railways, or financing any war, the Government takes loans on which interest together with the principal has to be paid by the future taxpayers.

5. *Voluntary contributions.* Frequently voluntary gifts are made over by wealthy subjects to the State for some public purposes to help it in emergencies. Very commonly donations are given by rich persons for the progress and expansion of educational institutions or such other social services.

6. *Fines and penalties.* They are called accidental and irregular sources of income as the object of their imposition is not primarily to augment the income of the State. Forfeits and escheats are other means by which a State obtains some portion of its income. Escheat is a legal term which means that everything lapses to the public exchequer in default of other heirs.

7. *Revenue derived from the incomes of different persons*

and corporations:—(a) Fees; (b) Special assessments, and (c) Taxes.

(a) A fee is a payment made by persons who receive a special service rendered by the State—the service, however, being non-commercial in character, e.g., court-fees, stamp-fees, license-fees, etc.

(b) A special assessment is defined by Prof. Seligman as “a compulsory contribution, levied in proportion to the special benefits derived, to defray the cost of a specific improvement to property undertaken in the public interest.” Special assessments, unlike fees, are levied specially by municipalities to meet some extraordinary expenditure such as the special improvement of a particular thoroughfare in a particular locality of the city.

(c) Taxes form the bulk of the State revenues in modern times. They are compulsory payments of wealth made to the public authority, by its people to meet the general expenses of the Government.

The Meaning and Nature of Taxes

“Taxes are levied upon practically all persons in the community to cover the cost of services rendered by the State for the benefit of the community generally.” A tax is a compulsory charge imposed by a public authority and, as Prof. Taussig puts it, “the essence of a tax, as distinguished from other charges by Government, is the absence of a direct *quid pro quo* between the taxpayer and the public authority.” From the nature of the definition given above it is clear that the State while charging taxes compulsorily from individuals does not give them any sort of guarantee regarding the amount of benefit in return that they shall receive from such a charge. While travelling in a railway, posting a letter, instituting a suit in a Court, or registering a bond we are compelled to make a payment in lieu of such a service but our payment is conditional upon our option to utilise such services rendered by the State. One who prefers to abstain travelling in a railway is never

compelled by the Government to make any kind of contribution on that account. The receipts from railway tickets, postage stamps, court-fees and stamp-fees roughly show a correspondence between the prices charged and the services received by the users. But no such correspondence can be said to exist between the services rendered by an army or navy, a fire department, or the police force and the payment made for the cost of their maintenance. Almost every resident of a State is called on to contribute for its upkeep irrespective of the advantages he derives, directly or indirectly. A tax, therefore, is a compulsory levy which is exacted from all alike by public authority under stated conditions and without any regard to the individual's use of the services supplied. "The essential characteristic of a fee is the existence of a measurable special benefit together with a predominant public purpose. . . . The absence of a public purpose makes the payment a price, the absence of special benefit makes it a tax."—Seligman.

Principles or Canons of Taxation

According to what principles or rules taxes should be levied and the individuals be made to contribute towards the cost of the various public services rendered has been discussed by economists, since the days of Adam Smith, at great length. Adam Smith was the first economist who in his classic book 'The Wealth of Nations' enunciated the four celebrated canons of taxation which still form the starting point of a sound policy of taxation. These are—the canon of equality, the canon of certainty, the canon of convenience, and the canon of economy. Besides these famous canons, the modern writers have added other principles, viz., productivity, elasticity and simplicity.

1. *Equality*. "The subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the State." This canon of equality or equity has been much discussed by economists and various

theories have been propounded to secure justice or equity in taxation. This canon requires that every person must contribute in proportion to his 'ability to pay.' If ability of people to pay taxes is measured in proportion to the revenue which they respectively enjoy, then certainly equality of sacrifice or justice in taxation cannot be secured. How to measure 'ability to pay' and 'equality of sacrifice' is still a vexed question. Shall an individual pay just in proportion to his income, or more? The conservative view maintains the principle of proportion according to which persons' income, whether large or small, whether earned or unearned, should be taxed all in proportion to their income and no more. On the other hand, the radical view maintains the principle of progressive or graduated system of taxation, according to which the rich should pay not only in proportion to their incomes, but more than in proportion, in other words, the rate of taxation should increase as the income increases.

2. *Certainty.* The tax, which each individual is asked to pay ought to be certain and not arbitrary; its time of payment, its manner of payment and the quantity to be paid ought all to be clear to the contributor. It is good both from the point of view of the taxpayer and the Government. This canon helps to make the Government certain about the probable yield of a tax and the time of its receipt into the Exchequer. Taxes need not be arbitrary nor they be collected arbitrarily. The certainty of a tax leads taxpayers to make an automatic provision for the amount of the tax without undergoing much botheration and trouble, as he gets accustomed to it. Hence the dictum that "an old tax is a good tax, and a new tax is a bad tax."

3. *Convenience.* "Every tax ought to be levied at the time or in the manner, in which it is most likely to be, convenient for the contributor to pay." It minimises the burden of the tax and brings the least interference in the process of industrial activity of the community. Indirect taxes generally conform to this principle to an appreciable degree as the con-

sumers pay the tax when they are in a position to purchase the article subject to tax.

4. *Economy.* Every tax should be so devised as to take out of the pockets of the people as little as possible over and above what it brings into the treasury of the State. This principle maintains that those taxes should be chosen (i) the cost of collection of which is small in proportion to the proceeds, and (ii) the loss caused to the community is small in proportion to the proceeds. This canon is violated if for the collection and administration of certain taxes a large army of tax collectors and inspectors is required, or if in their imposition they restrict the progress of trade and industry or cause unnecessary botheration on the part of the taxpayers.

5. *Productivity.* The tax should be productive and the yield must show a good return. Consequently, a smaller number of taxes productive of a large revenue is to be preferred than a large number of less productive taxes, taking care that the distribution of the burden of taxation on all classes of the community remains equitable. At the same time, the productivity of the tax should not be such as to damage the wealth-yielding sources whence it is derived.

6. *Elasticity.* The tax system should be so contrived as to provide an automatic growth of revenue with the increase of wealth and population. Taxes should be elastic in the sense that in order to meet fiscal emergencies the total amount of revenue can be increased with an increase in the rate of taxation without any great increase in administrative or collection charges.

7. *Simplicity.* Finally, a system of taxation ought to be simple, plain and intelligible to the taxpayers.

Kinds of Taxes

Taxes have been classified into (1) Direct, and (2) Indirect, a classification which is based on the burden, or the 'incidence' of taxation.

A *direct* tax is a tax, the burden of which is mainly borne by the person on whom it is intended to be levied by the taxing

authority. Its burden cannot be shifted by the person upon whom it is legally imposed. Direct taxes are generally levied upon the income and property of the individual. The income-tax, the super-tax and the land revenue are some of the instances of direct taxes in India. If the salary of a professor is taxed, say, at the rate of six pies per rupee, clearly he cannot pass on the burden of the tax to somebody else.

An *indirect* tax is a tax, the burden of which is passed on by the person on whom it is imposed to the shoulders of other persons. It may be collected from one person in the expectation that he will shift or transfer the burden to others. Indirect taxes are generally levied on commodities and transactions. The customs, the salt and the excise duties are some of the examples of indirect taxes in India. Import duties levied on foreign cigarettes are collected from the merchants importing them, but eventually the amount paid is recouped by them from the smokers who pay the amount of the tax in the shape of the increased price of cigarettes.

The *incidence* of a tax is different from its *impact*. Chapman remarks: "The *impact* is upon the person from whom the tax is collected, but the *incidence* is upon those who pay eventually. The process by which ultimate incidence is brought about is known as the process of *shifting*, or *rolling*, or *repercussion* of taxes." In the example of cigarettes mentioned above, the impact of the tax falls upon the merchants and the incidence of the tax upon the smokers. In a direct tax, the impact and the incidence are on the same person; when they are different the tax is called an indirect one.

It must, however, be pointed out that no hard and fast line can be drawn between direct and indirect taxes, since the distinction between the two sometimes becomes quite imperceptible. An indirect tax involves shifting while a direct tax does not. But there are cases where even the direct taxes may be shifted to the shoulders of someone else while the indirect taxes meant to be shifted may remain where they were imposed.

Advantages and Disadvantages of Direct Taxes

The principal direct taxes are the income tax, land tax, property tax, inheritance tax, and death duties.

Advantages

1. The great advantage of direct taxation lies in its educative influence or civic consciousness that it produces on the minds of the taxpayers. Each taxpayer is thoroughly conscious of his contribution to the revenues of the State, and therefore, he begins to display a direct interest in the activities of the State regarding the allotment of public expenditure for the various heads. Hence, direct taxation tends to make the public authority more honest, careful and scrupulous regarding its duties and functions towards its subjects.

2. Direct taxation is more just and equitable as the principle of progression in order to make the rich pay more than the poor can be easily applied.

3. Since they are usually collected at the source, the cost of collection is comparatively low and practically no wastage is experienced in their realisation. Thus, they conform to the canon of economy.

4. Direct taxes are generally collected at the source and, therefore, there are little or no chances of evasion.

5. Direct taxes are very elastic as their yield can be increased considerably by a slight increment in the rate of assessment without incurring any additional cost of collection and administration.

6. The taxpayer also knows what he has to pay, why he has to pay and when he has to pay.

Disadvantages

1. Direct taxes have invariably proved irritating to the taxpayers specially when attempts are made to increase the rate of the tax. Any slight increase in direct taxation is much resented by the taxpayers as its incidence falls mainly upon

them and sometimes grave social and political consequences follow in the wake of their imposition.

2. An accurate estimation of one's taxable capacity even by the most just and expert assessing officers involves several difficulties. Not infrequently, a direct tax causes much hardship to the taxpayers as a result of the wrong evaluation of their incomes. An easy escape is sometimes made by the people in direct system of taxation by producing fraudulent accounts before the income-tax officers.

3. The poorer sections of the community cannot be directly taxed owing to small incomes and heavy cost of collection. It is very difficult and inconvenient to tax directly the income of the daily wage-earners and menial servants as a large army of the collectors will be required to collect and administer taxes thereby, violating the canons of convenience and economy.

Advantages and Disadvantages of indirect Taxes

In India, the principal indirect taxes are customs duties levied on the exporter and the importer of commodities, and excise duties, e.g., duties imposed on matches, sugar, salt, alcohol, etc., produced within the country.

Advantages :

1. Indirect taxes are more popular as they are seldom felt by the taxpayers with that degree of acuteness and resentment as in the case of direct taxation, and, therefore, they are less disagreeable and inconvenient.

2. They are convenient because they are paid in small quantities in the shape of higher prices of commodities at the time when the payer has the requisite money to purchase the articles taxed. They are convenient from the point of view of the State as it gets the revenue in bulk from importers and manufacturers.

3. The poorer classes of the community can also be taxed and made to contribute some portion of their income to the public exchequer by indirect taxation.

4. By a judicious levy of taxes upon luxuries and necessities, equitable system of taxation is easily secured. The rich are obliged to pay more in resorting to the consumption of articles of luxury while the poor escape by refraining from the use of those heavily-taxed articles.

5. Indirect taxes are more elastic. The State automatically derives increased revenues in times of prosperity and flourishing trade and commerce without increasing the rates of taxation.

6. Lastly, indirect taxes are levied to restrict the consumption of unproductive luxuries, and other injurious articles the consumption of which is detrimental to the efficiency of the community.

Disadvantages

1. Indirect taxes are inequitable in that they are regressive in character and fall commonly more heavily on the poorer, than on the richer classes because the poor are the largest consumers of articles of general consumption, e.g., the salt tax, in India, involves a greater sacrifice on the part of the poor than the rich. It is in view of this regressive character of indirect taxes that any kind of levy on necessities has been invariably opposed.

2. Indirect taxes are known to have put serious obstacles in the natural growth and progress of trade and industry in a variety of ways. For instance, an undue high rate of indirect taxes entails sometimes adverse effects on production in that it increases the expenses of production, thereby diminishing the demand of the consumers and the output of the factories.

3. Indirect taxes also encourage smuggling of articles subject to taxation specially when the difference in prices between two places, owing to the different rates of taxation, is quite appreciable. A large army of supervisors is entrusted with the administration of such taxes entailing a heavy loss of revenue to the Government treasury. They are also uneconomical from the taxpayer's standpoint because he is obliged to contribute more than what is actually received by the State.

4. Another serious drawback of indirect taxes lies in the tendency of manufacturers or importers of commodities to raise their prices by more than the actual amount of the tax to the great detriment of the consumers. This argument also proves the uneconomical nature of indirect taxes.

5. The revenue derived from indirect taxes is not very certain unless the demand for the article is very inelastic. In times of economic depression, the income of the State shrinks considerably from indirect taxes as the revenue realised from them is dependent upon the conditions of trade and industry which are ever fluctuating.

The best system of taxation, as advocated by economists, is a judicious combination of both direct and indirect taxes so as to make every individual, rich or poor contribute something, according to his ability towards the general expenses of the Government.

INDIAN FINANCE

The system of financial administration in India that we find set up at the present day is of a very recent growth. Originally the entire administration of the finances of India was vested in the Government of India, that is to say, the entire responsibility for the collection and expenditure of revenue rested with the Central Government, and the Provincial Governments had no powers of taxation. This type of centralised administration, with little or no incentive to economy on the part of the Provincial Governments, suffered from many disagreeable features, resulting in frequent wrangling between the Central and the Provincial Governments regarding the allocation of grants for the requirements of the latter. It was, however, with the introduction of the Montagu-Chelmsford Reforms that great and important changes were witnessed in the system of the financial management of the country. By the Reforms of 1921-22 when the Government of India Act, 1919, came into general operation, a clear demarcating line was drawn up between the finances of the Government of India and that of the

Provinces. Under the new or present system of financial administration the Provinces have been allocated different sources of revenue from those of the Central Government, and have acquired a good deal of financial autonomy inasmuch as they have been now empowered to raise loans on the security of their revenues for purposes of general improvement and to initiate new taxative measures in certain cases with the sanction of the Governor-General in Council. Each province now maintains its own finance department with a Finance Member who almost enjoys a full liberty in the management of his provincial revenues.

Classification of Indian Revenues

Indian revenues can be conveniently classified according to the taxing authorities as found in India at the present time. They are (a) the Central Government, (b) the Provincial Governments, and (c) the various Local Bodies such as Municipalities, District Boards, and Port Trusts.

(A) Central Finance

Central finance consists of the sources of revenue conferred by the Reforms Act of 1919. The Central Government maintains the most wide and extensive powers of taxation in India and has reserved for itself the sources of revenue which are elastic such as customs and income tax which bring into the coffers of the Central Government increased revenues with an increase of wealth and population, whereas the sources of revenue assigned to the Provincial Governments are insufficient and more or less static, considering their rapidly expanding requirements. The revenues of the Central Government are not only derived from taxes but also from non-tax revenue sources.

Chief Sources of Revenue of the Central Government.

The following is a table of the principal heads of revenue enjoyed by the Central or Imperial Government in India.

GENERAL STATEMENT OF THE REVENUE

Budget (Estimates) for 1936-37

<i>Principal Heads of Revenue</i>	<i>In lakhs of Rs.</i>
Customs (Petrol tax for road fund)	1,35
Other customs	53,47
Taxes on Income	15,67
Salt	8,75
Opium	47
Other principal heads of revenue	1,87
Railways: Receipts less working expenses	31,73
Irrigation: Receipts less working expenses	..
Posts and Telegraphs	82
Interest Receipts	62
Civil Administration	98
Currency and Mint.	1,26
Civil works	26
Miscellaneous	55
Defence Receipts.	4,93
Extraordinary Items	..
Total revenue	32,273

The major portion of the revenues, is derived from taxation like customs, income tax, etc., yet the revenues accruing from commercial enterprises undertaken by the Government of India under its own control and management are by no means negligible. A brief comment pointing out a few salient characteristics of the main items of Central revenue seems worth consideration.

1. *Customs.* Customs duties are levied on the import and export of certain commodities according to the rates as prescribed in the tariff schedule framed by the Government of India. A list of such duties in a country is called its 'tariff.'

Customs duties bring into the State treasury about more than one-third of the total revenue. They are not only a productive but an elastic and growing source of revenue. It may be said that before the War, the Indian Tariff was Revenue Tariff, that is, the import and export duties on different commodities and their frequent variations in times of financial stringency were solely governed by revenue considerations. But as a result of the policy of 'discriminating protection' as recommended by the Fiscal Commission Report, protective duties on iron and steel products, paper, cotton piece-goods, sugar, etc., have been imposed by the Government of India. The customs tariff consists of *ad valorem* and specific duties. A duty is *ad valorem* when the tax is a certain percentage of the value of the commodity; it is specific when the tax is levied according to the quantity of the commodity as measured by its number, weight or volume. Though the tariff in India is an *ad valorem* tariff, yet certain commodities such as salt, kerosene oil, spirits, etc., are subject to specific duties. Customs duties today amount to heavy taxation on consumption which falls heavily on poor people.

2. *Income Tax.* Income tax is a direct tax and it is the most equitable, economical, productive and elastic source of revenue. Income tax in India is levied on annual incomes of both individuals and companies. The progressive or graduated principle in the assessment of income tax is secured by exempting incomes below a certain minimum and by charging high rates of taxation on larger incomes. In 1916 the scale of progression was introduced, and incomes below Rs. 2000 per annum were exempted from taxation until 1932 when the taxable limit was lowered to Rs. 1000 to enable the Government of India to meet the budget deficit caused by the dislocation of economic and industrial factors in the wake of the world economic depression. Again from 1936 incomes below Rs. 2000 per year are exempted from taxation.

Rates of Income Tax

Rs. 2,000	to Rs. 5,000	6 pies in the rupee.
„ 5,000	to „ 10,000	9 pies in the rupee.
„ 10,000	to „ 15,000	12 pies in the rupee.
„ 15,000	to „ 20,000	16 pies in the rupee.
„ 20,000	to „ 30,000	19 pies in the rupee.
„ 30,000	to „ 40,000	23 pies in the rupee.
„ 40,000	to „ 1,00,000	25 pies in the rupee.
„ 1,00,000	and above	26 pies in the rupee.

In the case of every registered company whatever its income may be 26 pies in the rupee.

Along with the income tax, super-tax is also payable on a progressive scale on so much of the annual income as in excess of Rs. 30,000 except for Hindu undivided families and companies which are allowed a deduction of Rs. 75,000 and Rs. 50,000 respectively. The rate of super-tax varies from one anna to six annas and three pies per rupee on a graduated scale except in the case of companies which are taxed at a flat rate of one anna per rupee, for every rupee over Rs. 20,000.

3. *Salt tax and opium revenue.* The salt tax is an old tax being inherited by the British Government from its predecessors. Before 1882 the rate of the salt duty varied from province to province. In that year, it was made uniform throughout India at Rs. 2 per maund, but was raised to Rs. 2-8 in 1888. From 1888 to 1931 the rate of the salt duty underwent many changes, and on the 30th September, 1931, it was fixed at Rs. 1-9 per maund. Economically the salt tax is inequitable and inconvenient and ethically it is indefensible in the Indian fiscal system. Since salt is a necessity of life, the consumption of which is regarded as extremely desirable from the point of view of the physique of the people, any tax on it is sure to impose proportionately a very heavy burden on the poorer classes. Its immediate reduction or extinction, if it is possible, is long overdue.

Opium is a fiscal monopoly of the Government of India. At one time huge quantities of opium used to be exported to China, the revenue from this source being considerably large. But as a result of an agreement entered into by the Government of India with China, the former decided to stop all exports of opium to China, this revenue has fallen considerably at present.

4. *Excise duty on matches and sugar.* An excise duty of Re. 1 per gross boxes containing on an average 40 matches and Rs. 2 per gross boxes containing about 80 matches was levied in the year 1935-36. This tax falls very heavily on the poor people of India and it is hoped that taxes on such necessities of life would be avoided. An excise duty of Rs. 1½ per cwt. on factory produced sugar and As. 10 per maund on Khandsari sugar was levied to recoup the losses sustained due to the fall in the import duty on sugar. The excise duty on sugar has been raised to Rs. 2 per cwt. in March 1937. It is assumed that this will not lessen in any way the protection afforded to the Indian sugar industry. Part of the proceeds of this duty will be utilised for the purpose of assisting the organisation and operation of co-operative societies among the cane growers.

5. *Railways and irrigation.* The receipts from non-tax revenue sources also swell the revenues of the Central Government. Railways and canals are commercial undertakings proving a good source of profit to the Government.

6. *Posts and Telegraphs.* They are commercial services undertaken by the Government of India with a view to provide cheap and convenient service. But mainly due to economic depression receipts from them have fallen like those from the railways and canals. They are incurring regular losses, in spite of strict economy in expenditure.

Chief Heads of Expenditure of the Central Government. The principal items of expenditure of the Central Government are as follows:—

GENERAL STATEMENT OF EXPENDITURE

Budget (Estimated) for 1936-37

<i>Items</i>	<i>In lakhs of Rs.</i>
✓ Direct Demands on the Revenue	4,17
✓ Railways: <i>Interest and miscellaneous charges</i> ..	31,73
✓ Irrigation: <i>Interest and miscellaneous charges</i> ..	5
✓ Posts and Telegraphs	89
✓ Debt Services and Interest	12,20
✓ Civil Administration	11,10
Currency and Mint	34
Civil works	2,56
✓ Defence Services	50,38
Miscellaneous	4,17
Extraordinary Items	40
• Miscellaneous Adjustments	4,66
Superannuation Allowances and Pensions .. .. .	..
Capital expenditure charged to revenue	1
Surplus	7
<i>Total expenditure</i>	<u>12,273</u>

1. *Direct demands for the cost of collection of revenues.*

They represent the expenditure incurred in collecting revenues from customs, income tax, salt, opium, land, excise, stamps, etc. This item should be kept as low as possible by adopting various measures of economy in the cost of collection of revenues.

2. *Commercial services.* This item includes expenditure chargeable to the commercial services. The expenditure on railways is represented by interest and miscellaneous charges on account of capital borrowed for the construction and working of railways. Posts and telegraphs, and irrigation works administered by the Central Government are other principal heads which account for the expenditure under commercial services.

3. *Debt charges.* A large amount of interest has to be paid annually by the Government of India on the debt inherited

from the East India Company, and the loans raised by the Central Government, now and then, for the development of railways and irrigation projects. The total debt is classified into productive works debt and ordinary or unproductive debt, and about eighty per cent of the national debt is estimated to have been taken for productive purposes. The national debt seems to be large, yet the interest chargeable to this account is not felt as burdensome for the State derives a large revenue from the undertakings financed by such loans. A striking feature of the public debt of India is that a large portion of it has been raised through sterling loans, as a result of which, a considerable amount of interest is now sent to foreign investors.

4. *Civil administration.* This item has seen an enormous increase in public expenditure specially since the introduction of the Reforms. The expenditure under this head represents the salaries of the staff of the Central Government and the minor provinces—Delhi, Ajmer-Merwara, Coorg and Baluchistan—which are directly administered by the Government of India. It also includes expenditure on political department, scientific research, educational and medical institutions and other services included in the list of central subjects. It is pointed out by many that Indian administration is the costliest in the world and the existing scale of salaries, allowances, leave concessions and pensions given to the officers of the Indian Civil Service is unduly high, considering the economic resources of the country. By reducing all unnecessary expenditure much saving can be brought about in this item of expenditure.

5. *Military charges.* This head includes expenditure on army, navy, air force, strategic railways, harbours and defence works maintained in India for keeping the country secure from foreign encroachments. This item takes away the lion's share of India's revenues and it has been invariably subjected to all sorts of criticism by the critics of the Government. In India, the percentage of expenditure on defence is the heaviest in the world. Even Sir Walter Layton, the Financial Assessor of the Simon Commission regarded the expenditure on this head as too exces-

sive in view of the poverty of the country and its low capacity for bearing the burden of taxation. It is suggested that this enormous expenditure can be curtailed considerably without losing the efficiency of the military services, provided the Indianisation of the Army together with other possible economies in expenditure is effected at an early date.

(B) Provincial Finance

As the Reforms Act of 1919 aimed to introduce responsible government of a limited character in the Provincial Governments, the relationship of subordination of Provincial Governments to the Central Government in matters connected with public revenue and expenditure was broken and Provincial Governments were for all practical purposes made financially independent of the central revenues. A clean cut was made between the revenues apportioned to the Central and Provincial Governments.

The chief heads of 'Provincial Revenues' are Land Revenue, Excise, Stamps, Forests, Registration, and Irrigation. Besides these, they also consist of income derived from Debt Service and Civil Administration. The revenue yield from these various sources varies in different provinces according to their economic condition and industrial progress. Thus, land revenue, which is an important head of revenue in the United Provinces, Bombay, Madras, the Central Provinces and Assam, occupies comparatively a less prominent place in the provincial revenues of Bengal because the land revenue is fixed in perpetuity. As we have already said, the Central Government appropriates all the elastic sources of revenue of India leaving only those heads to Provincial Governments which are highly inelastic and decreasing year after year. The Provincial Government have to look after all the nation-building departments such as education, agriculture and industries, sanitation and public health, for the expansion and development of which the entire country is clamouring. The present system of allocation needs to be revised.

General Statement of Revenue and Expenditure of the United Provinces for 1935-1936

Income		In Lakhs of Rs.	Expenditure	In Lakhs of Rs.
Land Revenue ..	..	580.5	Cost of Collection (Direct Demand on Revenues) ..	124
Excise ..	..	132	General Administra- tion ..	139
Stamps ..	..	170	Jails and Police ..	195
Forests ..	..	46	Education ..	207
Registration ..	..	11.5	Irrigation ..	106.9
Irrigation ..	..	135	Administration of Justice ..	75
Civil Administration	..	12.5	Agriculture ..	33
Jails and Police ..	..	7	Medical and Public Health ..	58
Education ..	..	12.4	Industries ..	11.5
Medical and Public Health ..	..	5.3	Civil Works & Roads	67
Agriculture ..	..	5.9	Interest and Sinking Fund ..	46
Industries ..	..	2	Debt Deposit and Advances ..	93
Civil Works ..	..	21.4	Capital Expenditure charged to Revenue	2.7
Interest and Debt Service ..	..	12.8	Capital Expenditure not charged to Revenue ..	70.3
Debt, Deposit and Advances ..	..	148	Miscellaneous ..	138.6
Miscellaneous includ- ing Subsidised Railways ..	..	19.2		
Total ..	..	1,322	Total ..	1,367
Opening balance ..	..	70	Closing balance ..	25
Grand total ..	..	1,392	Grand total ..	1,392

General Statement of Revenue and Expenditure of the C. P. and Berar for 1935-1936

Income	In Lakhs of Rs.	Expenditure	In Lakhs of Rs.
Land Revenue ..	259	Cost of Collection (Direct Demand on Revenues) ..	68
Excise	59	General Administration ..	71
Stamps	58	Jails and Police ..	69
Forests	47	Education ..	50.9
Registration ..	5	Irrigation ..	30.5
Irrigation ..	2.6	Administration of Justice ..	27
Civil Administration	9.5	Agriculture ..	15.8
Jails and Police ..	2.5	Medical and Public Health ..	17.9
Education	6.7	Industries ..	2.5
Medical and Public Health ..	1.5	Civil Works and Roads ..	64.2
Agriculture ..	2.4	Interest and Sinking Fund ..	6.7
Industries ..	14.6	Debt, Deposit and Advances ..	64.9
Civil Works ..	4.3	Capital Exp. charged to Revenue ..	11
Interest and Debt ..	73.6	Extraordinary Exp.	
Debt, Deposit and Advances ..	7.8	Miscellaneous ..	55
Miscellaneous ..			
Total ..	554.5	Total ..	554.5

General Statement of Revenue and Expenditure of the Punjab for 1935-1936

Income	In Lakhs of Rs.	Expenditure	In Lakhs of Rs.
Land Revenue ..	271	Cost of Collection (Direct Demand on Revenues) ..	73
Excise ..	98	General Administra- tion ..	108
Stamps ..	109	Jails and Police ..	152
Forests ..	18	Education ..	159
Registration ..	9	Irrigation ..	145
Irrigation ..	409	Administration of Justice ..	54
Civil Administration	18	Agriculture ..	50
Jails and Police ..	5	Medical and Public Health ..	58
Education ..	18	Industries ..	13
Medical and Public Health ..	11	Civil Works and Roads ..	97
Agriculture ..	8	Interest and Sinking Fund ..	44
Industries ..	4	Debt, Deposit and Advances ..	25
Civil Works ..	23	Capital Exp. charged to Revenue ..	17
Interest and Debt Service ..	9	Extraordinary Exp.	10
Debt, Deposit and Advances ..	83	Miscellaneous ..	108
Miscellaneous ..	20		
Total ..	1,113	Total ..	1,113

Chief Sources of Revenue of the Provincial Governments

1. *Land Revenue.* It is the biggest source of income of the Provincial Governments. In spite of an increase in the amount of land revenue it cannot be relied upon as an elastic source of revenue. On the other hand, it, not infrequently, proves an uncertain source of revenue in times of the failure of the Monsoons when remissions and suspensions of land revenue have to be made by the Government, entailing a heavy loss of revenue. But there seems to be no possibility of further increase owing to a heavy fall in the prices of agricultural products. It is pointed out by critics that rigidity of land revenue collection without any due regard to the prices of agricultural products and the yield of the land which shows variations from year to year according to the amount of rainfall and other natural factors affecting agriculture, leads to many an adverse economic effects on the peasantry of India. Again, it falls more heavily on the poorer landholders than on the rich ones because of the complete absence of progressive principle in land revenue assessment. It does not satisfy many of the canons of taxation.

2. *Excise.* Excise is a tax levied on commodities produced within a country. The excise revenue is obtained from the sale and manufacture of intoxicating liquors, hemp, drugs, toddy and from the fees for their sale licences. Excise duties vary from province to province. The income from this item has been stationary or diminishing in some of the provinces due to a restrictive policy of the Government and the increasing prejudice being manifested against the consumption of drugs and liquors.

3. *Stamps.* Stamp revenue is derived from two classes of stamps, judicial or court-fee stamps and non-judicial or commercial stamps.

4. *Forests.* They are an important asset of the Provincial Governments. The revenue is obtained from the sale of timber and other forest produce, grazing fees and licence fees for per-

mission to extract for sale firewood, charcoal, bamboos, canes and minor forest produce. There are prospects of securing a good revenue from forests, if they are properly conserved and exploited.

5. *Registration.* The revenue is mainly derived from registration according to the value of the documents registered. The registration is compulsory in the case of certain documents relating to gifts and transactions of immovable property, and optional in the case of others.

6. *Irrigation.* Most of the canals are under the direct control and management of the Provincial Governments. The revenue is derived from the water rate imposed for the water supplied to the cultivators for irrigating their crops. The net profits derived from irrigation constitute an important source of revenue in the Punjab, Madras and the United Provinces.

7. *Scheduled taxes.* These are taxes which the Provincial Governments may impose at their discretion since the Reforms, without the previous sanction of the Governor-General.

Chief Heads of Expenditure of the Provincial Governments

The expenditure of the Provincial Governments is apportioned into two heads corresponding to the "reserved" departments and "transferred" departments of the Government. On the "reserved" side the chief items of expenditure are Direct Demands on the Revenue, General Administration, Police, Jails and Justice. On the "transferred" side the chief items of expenditure are Education, Medical Relief, Public Health, Civil Works, Industries and Agriculture.

(1) *Direct demands on revenue.* This item represents the cost of collecting land revenue, excise, forests, stamp duties and registration fees. In the United Provinces this item represents about 10 per cent of the total expenditure and needs reduction by observing strict economies in many directions.

(2) *General Administration.* The expenditure under this head has increased enormously with the inauguration of

the Reforms. It implies expenditure chargeable to headquarter's establishment of the province, the revenue establishment and a part of the cost of magistracy. A considerable economy may be effected by bringing down the scale of salaries, allowances, pensions, etc., granted to superior staff and by other possible economies.

(3) *Police.* Recently, there has been witnessed a rapid increase under this head due to the increase in crimes and other terrorist activities. Although a reduction in police expenditure is greatly desirable, yet in the fervour of economy, the efficiency of police force for ensuring the peaceful state of the country should not be lost sight of.

(4) *Education.* The expenditure on this item has of late shown some improvement but it is extremely inadequate considering the vast illiteracy of the people. Means should be devised, somehow or the other, to increase the revenue or reduce expenditure in other directions so that larger funds may be allocated to this necessary head, for bringing enlightenment among the masses.

(5) *Medical relief and public health.* For preventing the corroding influence of the destructive diseases and improving the general physique of the people, the importance of this head cannot be over-emphasised. Considering the plethora of diseases and the notoriously unhealthy and insanitary tracts in the country, the expenditure on this department needs an immediate expansion.

(6) *Industries.* The Provincial Governments are generally averse to spending any substantial amount on this head as any increased revenue, mainly due to the efforts and monetary sacrifices of the Provincial Governments, will go to the Central Exchequer in the shape of revenue realised from income-tax head.

(7) *Agriculture.* Considering the importance of agriculture, the expenditure under this head is ridiculously small and whatever it is, a large portion of it is frittered away in the absence of any definite and steady agricultural policy and

cooperation between the different allied departments. As soon as the finances permit greater resources should be made available for agricultural developments, and the amount should be spent with definite view to bring about amelioration in the hard-pressed conditions of the peasantry.

(C) Local Finance

Besides the Central and Provincial Governments, there are various public bodies like municipalities, district boards, local boards, village unions, and port trusts which are usually known as Local Bodies. They have been also empowered to raise revenue from taxes or rates for the discharge of functions committed to their control and supervision. These local bodies are subject to the authority of the Provincial Government in a variety of ways.

The importance of local finance in modern times of growing political consciousness and rising spirit of nationalism has been recognised in all the progressive countries of the world. Mainly as a result of the spread of enlightenment among the masses and their keen grasp of a sense of consciousness in respect of their rights, a demand for Self-Government has persistently arisen everywhere. With the growth of rising democracies and the assumption of increased functions by the Central and Provincial Governments, the need for relegating some of the functions to the local bodies has been definitely recognised for securing efficiency in public administration and sufficiency in public services. It is essential that these local bodies should be given a free hand in tapping some new sources of revenue. Local opinion is strongly in favour of indirect as opposed to direct taxation for municipal purposes. Some of the Boards have recently imposed a tax on circumstances and property. The U. P. Government has passed the Motor Vehicles Taxation Act in 1936, to realise money to pay grants to local authorities for construction, improvement and maintenance of roads.

The number of municipalities is about 720 in India and their total income averages Rs. 38 crores. The total income of

all District Boards and Port Trusts is Rs. 16 crores and Rs. 1.5 crores respectively.

The Functions of Municipal Boards

The municipalities in India are entrusted with various duties and diverse functions connected with the Town Government. The functions are classed under four main heads— (i) Public Safety, (ii) Health, (iii) Convenience and (iv) Instruction. There are certain obligatory duties such as lighting, watering and scavenging of public roads and streets; prevention and control of epidemics by improving the general sanitation of the town; public vaccination and inoculation whenever small-pox, cholera or plague breaks out; checking of public nuisances; protection against conflagrations; regulation and abatement of offensive or injurious trades and practices; removal of refuse from public places; construction and maintenance of streets, roads, culverts, buildings, markets, slaughter houses, latrines, drainage and sewage works, tanks, drains and wells; establishment of public hospitals and dispensaries and provisions of primary education.

Certain duties are optional. If their finances permit, municipalities may undertake the laying-out, construction and pavement of new streets and roads. For the public recreation, amusement, enlightenment and for the beautification of the town at large they may provide public parks, gardens, gymnasiums, swimming baths, playgrounds, museums, libraries and other public buildings. They may also undertake other public utility services, organise exhibitions, collect vital statistics, provide maternity homes and compulsory education.

Sources of Revenue of Municipal Boards

The principal sources of municipal revenue may be classified under five heads.

(1) *Taxes and Rates.* Under this item the income is obtained from taxes on land and buildings, animals and vehicles, professions, trades and callings, tolls on roads, ferries, and octroi

Statement of Income and Expenditure of a Municipality for 1936-37

Heads of income	Rs.	Heads of Expenditure	Rs.
1. <i>Municipal Rates and Taxes—</i>		1. <i>General Administration and collection charges—</i>	
Octroi duties ..	3,26,128	General administration ..	92,391
Taxes on animals, lands, buildings and vehicles ..	58,172	Collection of taxes ..	22,530
2. <i>Realisations under special Acts—</i>		Collection of tolls ..	19,941
From pounds and hackney carriages ..	5,321	Refunds ..	34,004
From Licences for the sale of spirits ..	1,565	2. <i>Public safety—</i>	
From other sources ..	5,137	Lighting ..	42,805
3. <i>Revenue from property and power—</i>		3. <i>Public Health and convenience—</i>	
Rents of lands, houses, sarais ..	16,532	Water supply ..	1,533
Sale of lands and produce ..	4,312	Drainage ..	19,562
Conservancy receipts ..	11,335	Conservancy ..	32,530
Fees from market and slaughter houses ..	3,267	Health (Officers, etc.) ..	24,345
Copying fees ..	1,202	Hospitals and Dispensaries ..	16,905
License fees on carts ..	4,503	Other charges ..	15,573
Fines ..	7,905	Public works and Roads ..	67,531
Premium on loans ..	1,361	4. <i>Public Instructions—</i>	
4. <i>Grants and contributions—</i>		Schools and Colleges ..	31,482
From Government for education ..	17,732	Contributions ..	9,505
5. <i>Miscellaneous—</i>		Libraries museums, etc. ..	5,472
Other items ..	8,035	5. <i>Miscellaneous—</i>	
6. <i>Extraordinary debt and deposits ..</i>	7,372	Printing and law charges ..	7,340
7. <i>Opening Balance..</i>	12,821	Other items ..	
		6. <i>Extraordinary debt and deposits ..</i>	12,532
		7. <i>Closing Balance</i>	36,946
TOTAL ..	4,92,700	TOTAL ..	4,92,700